kotak Institutional Equities

Kfin Technologies (KFINTECH)

Diversified Financials

BUY

CMP(₹): **327** Fair Value(₹): **400** Sector View: **Attractive** NIFTY-50: **18,182**

May 17, 2023

A diversified financial infrastructure play

KFin Technologies is a play on financial infrastructure space with multiple growth levers beyond the duopolistic MF registry market (#2 player; ~30% AUM market share). We believe the company's strategy to accelerate growth (organic + M&As) will augur well in building scale across diversified offerings. Initiate with a BUY rating and FV of Rs400, implying ~27X FY2025E EPS with ~15% EPS CAGR over FY2024-26E.

Initiate with BUY rating; Fair Value Rs400

We initiate coverage on KFin with a BUY rating and Fair Value of Rs400 (~20% upside), implying ~27X FY2025E EPS with ~15% earnings CAGR over FY2024-26E. Kfin's disadvantage in the mutual fund RTA duopoly (~30-35% market share) is counterbalanced by a diversified revenue profile that mitigates regulatory risks, lower client concentration and strong growth optionality arising from the presence in international, alternatives and issuer solutions businesses.

A diversified financial infrastructure company

KFin is a multi-product, multi-geography diversified financial services infrastructure company, providing solutions to assets managers, alternate investment funds, wealth mangers, pension funds and companies in India and South-East Asia. The company mostly operates in duopoly or oligopoly markets with high entry barriers and switching costs for clients. KFin is the #2 player in a MF RTA duopoly with ~30% market share. The revenue profile is relatively diversified with the majority coming from MF RTA (~65-70% of revenues), followed by corporate registry (~15%) and fast-growing international/domestic alternatives (~10%).

MF RTA business facing headwinds; revenue/client diversification is critical

We expect MF RTA revenue to growth at ~8-9% CAGR over the next decade as against ~13% growth in the past five years. At the MF industry level, secular fee declines over the next decade could lead to ~15% AUM growth delivering ~11-12% gross revenue growth for the entire value-chain to partake. Core characteristics of the industry remain unchanged, i.e. a duopoly industry with large entry barriers due to investments needed to build servicing capabilities along with high operational risks involved in switching vendors. These benefits are outweighed by high revenue concentration, leading to pricing power being skewed towards AMCs. Over the mid to long-term, there is also uncertainty around how higher share of direct investing along with passives will influence dependence on transfer agents. We see revenue and client diversification as the only way to build scale and strengthen the business model against secular yield pressure facing the asset management industry.

Risks: Yield pressures, execution risks, operational risks

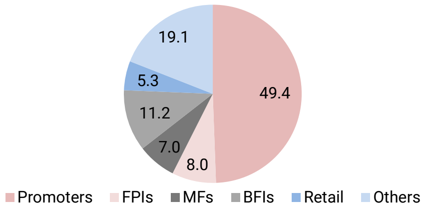
Key risks for KFin include: (1) Faster-than-expected yield compression due to adverse pricing regulations for mutual funds, accentuated by high client concentration, (2) spotless execution is critical to KFIN's growth journey as it operates in 6-7 distinct business segments, spanning across client segments and geographies, (3) operational lapses (errors, outages, cyber-attacks), (4) loss of large clients due to M&As, and (4) adverse financial outcomes on pending litigations.

Company data and valuation summary

Stock data

CMP(Rs)/FV(Rs)/Rating	327/400/BUY
52-week range (Rs) (high-low)	373-271
Mcap (bn) (Rs/US$)	55/1
ADTV-3M (mn) (Rs/US$)	48/1

Shareholding pattern (%)



Price performance (%)	1M	3M	12M
Absolute	10	2	0
Rel. to Nifty	7	1	0

Forecasts/Valuations	2023	2024E	2025E
EPS (Rs)	11.6	13.0	14.8
EPS growth (%)	30.5	12.4	13.9
P/E (X)	28.3	25.2	22.1
P/B (X)	6.4	5.2	4.3
BVPS (Rs)	51.4	63.0	76.0
RoE (%)	17.2	16.2	16.6
Div. yield (%)	0.0	0.0	1.4
Revenues (Rs bn)	7.2	8.0	9.1
EBITDA (Rs bn)	3.0	3.3	3.7
Net profits (Rs bn)	2.0	2.2	2.5

Source: Bloomberg, Company data, Kotak Institutional Equities estimates

Prices in this report are based on the market close of May 17, 2023

Full sector coverage on KINSITE

Abhijeet Sakhare
abhijeet.sakhare@kotak.com
+91-22-4336-1240

Nischint Chawathe
nischint.chawathe@kotak.com
+91-22-4336-0887

M B Mahesh, CFA
mb.mahesh@kotak.com
+91-22-4336-0886

Varun Palacharla
varun.palacharla@kotak.com
+91-22-4336-0888

Ashlesh Sonje, CFA
ashlesh.sonje@kotak.com
+91-22-4336-0889

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KFin Technologies—overview

Exhibit 1: March fiscal year-ends, 2019-26E

	Operational revenue (Rs mn)	YoY (%)	Revenue share of MF RTA (%)	Calculated EBITDA (Rs mn)	EBITDA margin (%)	PAT (Rs mn)	YoY (%)	Core PBT margin (%)	EPS (Rs)	BVPS (Rs)	Domestic MF AAUM (Rs tn)	Share of equity in domestic MF AAUM (%)	Yields in domestic MF business (bps)	Cost-income ratio (%)	Calculated adjusted ROE (%)
2019	4,413	NA	61	1,448	32.8	566	0	23	1	85	7	40	4.0	81.1	NA
2020	4,499	2	62	1,586	35.3	45	-92	18	0	26	7	47	4.2	95.9	1
2021	4,811	7	66	2,124	44.1	-645	NM	27	-4	23	8	47	4.1	86.1	(17)
2022	6,395	33	71	2,879	45.0	1,485	NM	31	9	38	11	53	4.1	68.4	30
2023E	7,200	13	68	2,980	41.4	1,957	32	33	12	51	12	55	3.9	65.0	26
2024E	8,043	12	67	3,333	41.4	2,200	12	33	13	63	14	53	3.7	64.9	23
2025E	9,050	13	65	3,737	41.3	2,506	14	33	15	76	17	53	3.5	64.6	21
2026E	10,213	13	65	4,354	42.6	2,971	19	35	18	86	20	52	3.4	62.9	22

Notes:
(a) All ratios are annualized.
(b) Operational revenue does not include other income.
(c) Core PBT: PBT-other income+amortization expense on goodwill.

Source: Company, Kotak Institutional Equities estimates

KFin Technologies—summary of key financials

Exhibit 2: March fiscal year-ends, 2019-26E

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Key growth rates (%)								
Operational revenue	NA	2	7	33	13	12	13	13
EBITDA	NA	10	34	36	4	12	12	17
PAT	NA	(92)	NM	NM	32	12	14	19
Core PBT	NA	(20)	61	53	22	11	13	18
Domestic MF AAUM serviced	NA	1	17	41	12	17	16	17
Key ratios								
Domestic MF revenue/total operational revenues (%)	60.7	62.3	66.0	70.6	67.5	66.6	65.4	64.7
Yields in domestic MF business (bps of AAUM)	4.0	4.2	4.1	4.1	3.9	3.7	3.5	3.4
Yields in AIF, wealth and international investor solutions (bps)	5.1	3.9	3.7	3.9	5.0	5.0	5.0	4.9
Issuer solutions revenue/average number of folios (Rs)	—	9.2	9.3	8.3	9.2	9.6	9.5	9.4
Global business service revenue per transactions (Rs)	30.1	16.7	10.8	9.0	9.0	8.5	8.1	7.7
Cost-to-income (%)	81.1	95.9	86.1	68.4	65.0	64.9	64.6	62.9
EBITDA margin (%)	32.8	35.3	44.1	45.0	41.4	41.4	41.3	42.6
PBT margin (%)	19.3	4.1	14.0	31.9	35.9	36.1	36.5	38.4
ROE (%)	—	1.0	(17.1)	30.0	25.8	22.7	21.3	21.6
Key income statement items (Rs mn)								
Revenue from operations	4,413	4,499	4,811	6,395	7,200	8,043	9,050	10,213
Domestic mutual fund solutions	2,677	2,804	3,174	4,514	4,862	5,359	5,922	6,608
Issuer solutions	507	510	622	742	983	1,130	1,293	1,471
International/AIF/others`	277	314	384	484	653	812	1,035	1,270
Total income	4,508	4,553	4,862	6,456	7,375	8,274	9,338	10,563
EBITDA	1,448	1,586	2,124	2,879	2,980	3,333	3,737	4,354
PAT	566	45	(645)	1,485	1,957	2,200	2,506	2,971
Core PBT	1,002	802	1,294	1,979	2,407	2,672	3,017	3,569
Key balance sheet items (Rs mn)								
Cash	536	178	235	452	870	1,784	2,102	3,328
Investments	1,115	135	949	931	2,286	2,743	2,987	3,256
Fixed assets	381	345	285	344	403	443	488	536
Intangibles	85	290	453	916	1,205	1,326	1,458	1,604
Goodwill	6,572	5,915	5,246	5,434	5,434	5,834	5,834	5,834
Net assets	10,218	8,684	9,226	10,264	12,513	14,596	15,621	17,513
Shareholders' funds	5,193	4,096	3,464	6,443	8,702	10,660	12,860	14,614
Key cash flows items								
Free cash flow	561	892	1,653	1,759	1,522	1,691	2,268	2,813
Other key items								
Domestic MF AAUM serviced (Rs tn)	6.6	6.7	7.8	11.1	12.4	14.5	16.7	19.5
Share of equity AAUM (%)	39.9	47.3	47.5	52.8	55.1	53.0	53.1	52.3

Source: Company, Kotak Institutional Equities estimates

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Initiate with BUY and FV of Rs400

We initiate coverage on KFin with a BUY rating and DCF-based FV of Rs400, i.e. ~27X March 2025E EPS (see Exhibit 8). We expect earnings to grow ~15% CAGR over FY2024-26E and ~10% over the next 10 years. While we are cautious on the revenue growth outlook for the domestic MF registry business (ongoing fee pressure, impact of awaited regulations), KFin's strategic focus to accelerate scale-building and revenue-diversification in areas with less pricing/regulatory challenges will lead to a stronger business model over medium to long term.

A diversified financial infrastructure company

KFin is a multi-product, multi-geography diversified financial services infrastructure company, providing solutions to assets managers, alternate investment funds, wealth mangers, pension funds and companies in India and South-East Asia. The company mostly operates in duopoly or oligopoly markets with high entry barriers and switching costs for clients. KFIN is the #2 player in an MF RTA duopoly with ~30% market share. The revenue profile is relatively diversified with the majority coming from MF RTA (~65-70% of revenues), followed by corporate registry (~15%) and fast-growing international/domestic alternatives (~10%).

Revenue growth has a strong capital market linkage; international business is a wild card

KFin's overall revenues grew ~13% CAGR over FY2019-23 and registered 17% CAGR adjusting for other operating revenues (largely comprising recoverable expenses). We expect 12% revenue growth over FY2024-26E, which reflects: (1) 13% revenue growth in domestic MF RTA vertical on the back of ~17% AUM growth (marginal decline in equity market share, offset by lower exposure to debt funds), (2) moderate revenue growth (~14%) in issuer solutions with high sensitivity to IPO activity, (3) sustained high growth (~25%) in the international/domestic AIF segment given strong pipeline and potential client wins, and (4) negligible growth in the global business service due to headwinds from to the US mortgage markets. We expect EBIT margins in the 36-38% (~39/36% in FY2022/23) with the ability to cut costs in an environment where revenue growth becomes more challenging. (Exhibit 3)

We expect 12-13% revenue growth over FY2024-26E with a stable mix across segments

Exhibit 3: Overall and segmental revenues, March fiscal year-ends, 2019-26E

	2019	2020	2021	2022	2023	2024E	2025E	2026E	2019-23 CAGR	2024-26E CAGR
Revenues (Rs mn)										
Domestic MF business	2,677	2,804	3,174	4,514	4,862	5,359	5,922	6,608	16	11
Issuer solutions	507	510	622	742	983	1,130	1,293	1,471	18	14
International/AIF/NPS/others	277	314	384	484	653	812	1,035	1,270	24	25
Global business services	295	362	420	422	438	437	448	460	10	2
Others (recoverables)	657	509	211	233	266	305	351	404	(20)	15
Total	4,413	4,499	4,811	6,395	7,200	8,043	9,050	10,213	13	12
% of total										
Domestic MF business	61	62	66	71	68	67	65	65		
Issuer solutions	11	11	13	12	14	14	14	14		
International/AIF/NPS/others	6	7	8	8	9	10	11	12		
Global business services	7	8	9	7	6	5	5	5		
Others (recoverables)	15	11	4	4	4	4	4	4		
Total	100	100	100	100	100	100	100	100		
YoY (%)										
Domestic MF business		5	13	42	8	10	11	12		
Issuer solutions		1	22	19	32	15	14	14		
International/AIF/NPS/others		13	22	26	35	24	27	23		
Global business services		23	16	1	4	(0)	3	3		
Others (recoverables)		(23)	(59)	10	14	15	15	15		
Total		2	7	33	13	12	13	13		
Total (ex other revenues)		6	15	34	13	12	12	13		

Source: Company, Kotak Institutional Equities estimates

Business model at a cross-section of capital markets and technology services

KFin's revenue growth finds support from a few underlying macro drivers:

- **Expansion of MF investor base.** KFin has ~30% AUM market share in the MF RTA business. As register of the fund's investors and manager of subscription/redemption requests, RTAs have an indispensable role in the Indian MF ecosystem. They are responsible for critical functions such investor KYC, onboarding, regular communication and various other value-added services. At less than <40 mn unique MF investors, India remains fairly underpenetrated. From a distribution point of view, India will remain a commission-driven market with strong dependence on retail distributors. RTAs remain relevant as central point of contact between investors, distribution partners and AMCs. CAMS is a market leader and Kfin's only competitor in the segment.

- **New listings and direct equity participation.** KFin's corporate registry business is a direct beneficiary of growth in direct retail participation, especially spurred by listings. KFin is the largest player with ~45-50% market share in market cap. terms and having marquee clients such as RIL, Maruti Suzuki, HUL, Axis Bank, etc. Successful execution of the recent LIC IPO, handling heavy load of retail transactions under a close watch of regulators/policymakers, augur well for acquiring potential large clients. There is better pricing flexibility (regulatory leeway plus low client concentration) compared to MF RTA as KFin can revisit prices periodically. Kfin's key competitors in the segment are Link Intime (owned by Link Market Services, a global registry player based out of Australia) and Bigshare Services.

- **Global trend towards outsourcing of non-core functions.** KFin's expertise in the domestic market can be exported into other markets as well. Management has committed to invest and scale its transfer agency/fund accounting business in South-East Asia, a market ripe for penetration given current low adoption of third-party service providers. KFin's right-to-win is backed by not just cost savings for the client but also its expertise in offering end-to-end technology solutions and operational support. Pricing is also more supportive as contract clauses allow minimum price at a fund level as well as price hikes.

  - Global experience indicates outsourcing of non-core functions brings benefits such as cost-efficiency through a variablized cost structure and economies of scale. Third-party vendors can bring access to specialized domain expertise and technology platforms. Kfin does not have a direct competitor in markets such as Malaysia, Thailand and Philippines as RTA function is handled internally. In more mature markets such as Singapore and HK, competition comes from larger players like SS&C, Apex, IQ-EQ, etc. and sometimes through bundled offerings (custodian + fund administrator + transfer agent) by large global players like HSBC, Citi, StanC, etc.

- **Increasing regulatory complexity and compliance burden.** Investment industry will become more complex in times to come with proliferation of different fund vehicles, fee structures and distribution channels. For example, alternative funds such as AIF/PMS have seen strong growth in fund launches and AUM over the past five years. Regulatory changes will continue to increase the operational complexity of remaining compliant. Companies such as KFin and CAMS bring together deep domain skills (including regulations) along with capabilities to implement software solutions to reduce operational burden for end clients. Domain expertise also opens up opportunities for complimentary solutions – for example, Kfin's issuer solutions business can combine with ESG data providers to enable voting on ESG related matters.

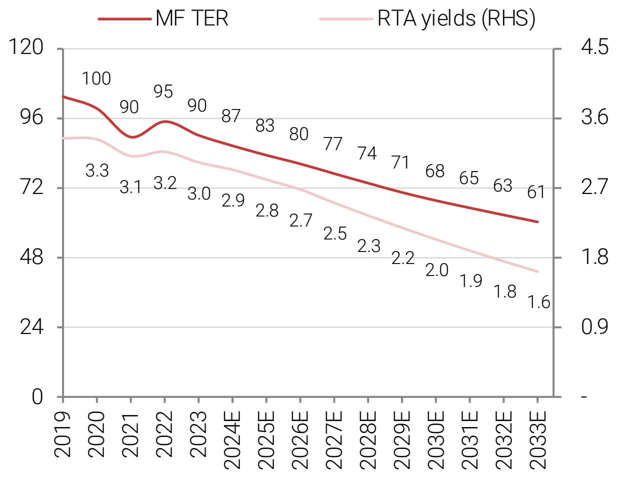
Mutual fund RTAs: A duopoly without a pricing power

Indian mutual fund industry is in the middle of a challenging operating (slower AUM growth) and regulatory (fee declines) environment, resulting in heightened revenue pressure. Being one of the largest vendor cost items, RTAs are too facing the heat (see client-level revenue analysis inside). Mutual fund RTAs have seen yield decline to nearly 3 bps by FY2023 from 3.3 bps in FY2019, despite a richer mix from equity share moving to ~50% from ~44% during this period.

Over the next decade, we expect MF revenues to grow ~11% with RTA revenues growing at ~8% CAGR. Under the base case assumption we expect greater yield pressure for RTAs in comparison to MFs, leading to decline in share of RTA costs as percent of MF revenues (Exhibit 4-5). The duopoly nature of the industry helps CAMS and KFin extract better operating leverage from the business (EBITDA margins of 40-45%). However, the MF industry in general is highly polarized as well with top 10 players driving ~80-85% of AUMs, leading to client concentration diluting the duopoly benefits. While we believe our assumptions are quite conservative on long-term trajectory of yields, they still carry risks such as change in regulations for MFs, shift in pricing models (fixed price plus variable element or number of investors versus bps of AUM currently), increased competition due to technological changes like blockchain, etc.

We expect RTAs to face stronger yield pressure…

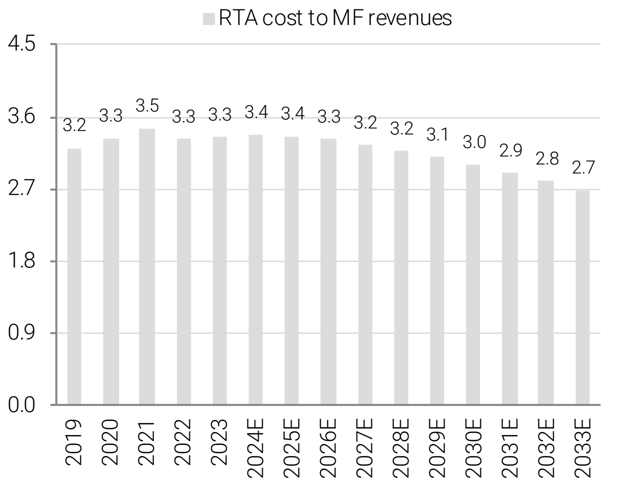
Exhibit 4: MF TER and RTA yields for the industry, March fiscal year-ends, 2019-33E (bps of AUM)



Source: Company, Kotak Institutional Equities estimates

…resulting in declining revenue share of total TER

Exhibit 5: RTA cost as % of MF TER for the industry, March fiscal year-ends, 2019-33E (% of MF revenues)



Source: Company, Kotak Institutional Equities estimates

Long-term MF industry imponderables: consolidation/fragmentation, active/passive, closed/open architecture

The RTA market share movement over the past decade suggests that market share movements tend to even out as the underlying players gain and cede market share (Exhibit 6). While this could continue, any definitive shift towards more consolidation or fragmentation can influence outcomes for RTA players. For example, KFin has ~30% share of total AUM, ~35% of equity AUM, ~40% of SIP flows but has higher ~60% share in terms of number of clients. Over the past few years of strong equity markets, KFin has benefitted from a (1) greater share of equity AUM and (2) relatively smaller sized AMCs with smaller fund sizes helping yields. However, regulations could drive consolidation of the industry.

On the other hand, CAMS enjoys a clear head start, with higher number of clients having leading market share. CAMS has four out of five largest clients in terms of overall and equity AUM (top 5 have ~50-55% of total/equity AUM). CAMS services most of the large bank-promoted AMCs such as SBI, ICICI Bank, HDFC Bank and Kotak Bank, whereas KFin has Axis Bank and Canara Robeco within top 15.

Over the long-term, penetration of passive products like ETFs could impact the dependence on RTAs. RTA charges for passive funds is also likely to remain much lower than active funds sold through traditional channels.

CAMS has close to ~70% market share of overall MF AUM

Exhibit 6: Overall AAUM of top-20 MFs and market share of CAMS and KFin, March fiscal year-ends, 2014-23 (Rs bn)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SBI MF	524	588	808	1,196	1,725	2,282	2,997	4,095	5,817	6,759
ICICI Pru MF	687	988	1,328	1,861	2,527	2,792	3,192	3,493	4,527	4,991
HDFC MF	829	1,064	1,321	1,624	1,985	2,844	3,438	3,610	4,169	4,275
Nippon India MF	819	1,018	1,297	1,617	2,070	2,115	1,869	1,922	2,616	2,845
Kotak MF	299	285	450	654	1,056	1,249	1,574	1,914	2,641	2,813
Aditya Birla SL MF	675	866	1,148	1,565	2,158	2,294	2,303	2,269	2,836	2,730
Axis MF	111	169	259	403	604	758	1,092	1,621	2,369	2,426
UTI MF	583	679	831	1,034	1,281	1,399	1,358	1,443	2,032	2,283
Bandhan MF	318	368	481	524	635	639	921	1,115	1,218	1,168
Mirae MF	5	14	26	59	128	216	369	554	943	1,126
DSP MF	230	292	334	509	779	782	700	800	1,051	1,103
Edelweiss MF	61	96	80	58	86	115	158	415	757	1,089
Tata MF	131	171	250	344	411	475	475	531	769	916
HSBC MF	80	106	141	212	409	539	565	555	700	734
Franklin Templeton MF	399	547	664	698	869	967	1,029	695	675	642
Canara Robeco MF	58	65	61	75	95	113	145	210	415	573
Invesco MF	110	151	169	195	221	225	225	284	422	436
Sundaram MF	89	114	135	141	187	207	210	208	297	410
Motilal Oswal MF	3	14	41	70	146	194	198	231	336	329
PPFAS MF	3	5	6	7	9	15	26	62	182	299
Total of above	6,014	7,597	9,829	12,844	17,380	20,223	22,843	26,026	34,772	37,947
Industry AAUM	6,425	8,110	10,475	13,619	18,343	21,063	23,456	26,601	35,668	39,177
CAMS market share (%)	**66**	**66**	**66**	**68**	**69**	**71**	**74**	**72**	**69**	**68**
KFIN market share (%)	**34**	**34**	**34**	**32**	**31**	**28.8**	**26.1**	**27.6**	**30.5**	**31.9**

Source: ACE MF, Kotak Institutional Equities

Creating scale is a prerequisite to fighting fee pressures

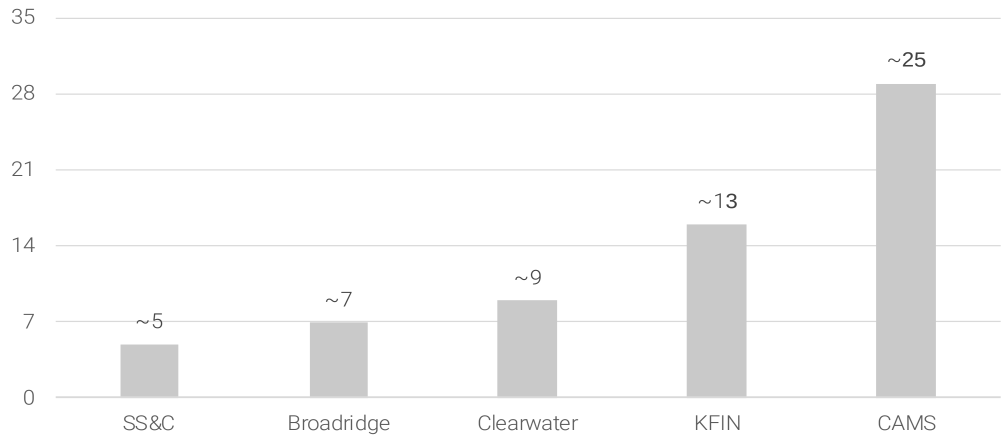
KFin (and CAMS to a greater extent) will continue to face revenue headwinds as their MF clients wade through fee pressure from an increasingly onerous regulatory scenario and competitive market. A key weakness in the business model despite monopoly is the high client concentration. We see the only way to break out of being seen as an MF-derivative is to diversify the revenue profile through selective organic expansion and/or disciplined and focused acquisitions. An increased scale leads to operating leverage benefits and helps offset consistent, secular yield pressure facing the asset management industry.

When we look at similar business models globally (e.g. SS&C, Computershare, Clearwater, etc.), one thing that stands out is their ability to create scale through organic and inorganic expansion across domains and geographies. For example, SS&C, a US-based global leader in the asset servicing space, has cumulatively acquired close to 60 companies since 1995. These include a series of acquisitions to expand the client base in the core hedge fund administration services along with several smaller bolt-on transactions to add capabilities, such as cloud-based risk analytics, virtual data rooms and secure collaboration solutions for asset managers, platform to extract handwritten and machine-printed data from paper documents, etc.

The client concentration metrics for global players such as SS&C, Broadridge and Clearwater is substantially lower at 5-7%. This compares to ~15/30% for KFin/CAMS (Exhibit 7).

Global players have much lower client concentration; CAMS at a higher risk

Exhibit 7: Revenue share of largest client, March/December year-end, 2022 (%)



Source: Companies, Kotak Institutional Equities

DCF implies ~27X FY2025E EPS

We value KFin at Rs400 per share using the DCF-based valuation methodology. Key assumptions over the next decade are as follows:

- **MF RTA.** 16% MF AUM CAGR over the next decade, slowing down to 13% for the following decade, leading to ~8% revenue CGAR over this period. We bake in fairly severe yield compression of ~5% every year over the next 20 years, which reflects long-term trends such as MF fee pressure, shift to direct investing (leads to reduced scope of work) and increasing share of passive funds.
- **International/alternatives.** Expect ~23% AUM CAGR in the international/alternatives segment over the next decade, then slowing down to ~15% over the following 10 years. Given a relatively favorable pricing/regulatory environment, we expect better translation into revenue growth (~20%/15%). This division can be a potential wild card, which can swing our numbers meaningfully.
- **Other segments.** (1) Issuer solutions business revenue growth is expected to be ~12% over the next 10 years and then normalizing to ~8% over the following 10 years. Growth in this segment is largely linked to direct retail ownership of stocks along with a number of companies listed. (2) The global business services unit handles process outsourcing by Computershare's US mortgage servicing business. Growth is likely to be marginal ~2% for this unit as it remains a legacy business.
- **Margins to slowly trend downwards.** We believe PBT margins will decline gradually to ~30% over 10 years from ~33% currently for the company, given the shift in the revenue mix towards non-MF businesses, which will require greater investments in technology and capabilities through organic and inorganic routes. This will offset benefits derived from increased scale.
- **12.5% WACC; 7.5% terminal growth rate.** We use the same WACC for KFin and CAMS, even though KFin potentially has better revenue diversification prospects over the medium term. This is offset by execution risks given a larger number of business verticals. Terminal value contributes ~40% to Fair Value.

We value KFIN at Rs400 per share, implying ~20% upside

Exhibit 8: DCF valuation of KFIN, March fiscal year-ends, 2020-45E

	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Total income (Rs bn)	4	5	6	7	8	9	10	11	13	14	15	17	18
YoY (%)	*2*	*7*	*33*	*13*	*12*	*13*	*13*	*11*	*10*	*10*	*10*	*10*	*10*
PBT-other income (Rs bn)	0.8	1.3	2.0	2.4	2.7	3.0	3.6	4.0	4.3	4.7	5.2	5.6	6.1
YoY (%)	*(20)*	*61*	*53*	*22*	*11*	*13*	*18*	*11*	*10*	*9*	*9*	*9*	*9*
Core PBT margin (%)	18	27	31	33	33	33	35	*35*	*34*	*34*	*34*	*34*	*33*
Core PAT (Rs bn)	0.0	(0.6)	1.4	1.8	2.0	2.3	2.7	3.0	3.3	3.6	3.9	4.3	4.7
Tax	1	2	1	1	1	1	1	1	1	1	1	1	1
Core PAT growth	—	—	—	27	11	13	18	11	10	9	9	9	9
Tax rate (%)	96	146	27	24	24	24	24	24	24	24	24	24	24
Depreciation expense (Rs bn)	(1)	(1)	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(2)
Changes in working capital (Rs bn)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Capex	(0)	(0)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Free cash flow (Rs bn)	0.5	(0.0)	1.1	1.3	1.4	2.0	2.4	2.7	3.1	3.4	3.8	4.2	4.7
Years discounted							1	2	3	4	5	6	7
Discounting factor						1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.4
Discounted cash flow (Rs bn)						2	2	2	2	2	2	2	2

	2033E	2034E	2035E	2036E	2037E	2038E	2039E	2040E	2041E	2042E	2043E	2044E	2045E
Total income (Rs bn)	20	22	24	26	29	31	34	37	41	44	48	52	57
YoY (%)	*9*	*9*	*9*	*9*	*9*	*9*	*9*	*9*	*9*	*9*	*9*	*9*	*8*
PBT-other income (Rs bn)	6.7	7.2	7.8	8.5	9.2	10.0	10.8	11.7	12.7	13.8	14.9	16.1	17.4
YoY (%)	*9*	*8*	*8*	*8*	*9*	*9*	*8*	*8*	*8*	*8*	*8*	*8*	*8*
Core PBT margin (%)	*33*	*33*	*33*	*32*	*32*	*32*	*32*	*31*	*31*	*31*	*31*	*31*	*31*
Core PAT (Rs bn)	5.1	5.5	5.9	6.4	7.0	7.6	8.2	8.9	9.6	10.4	11.3	12.2	13.2
Tax	2	2	2	2	2	2	3	3	3	3	4	4	4
Core PAT growth	9	8	8	8	9	9	8	8	8	8	8	8	8
Tax rate (%)	24	24	24	24	24	24	24	24	24	24	24	24	24
Depreciation expense (Rs bn)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	(4)	(4)
Changes in working capital (Rs bn)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Capex	(2)	(2)	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(4)	(4)
Free cash flow (Rs bn)	5.1	5.6	6.0	6.6	7.1	7.7	8.3	8.9	9.6	10.4	11.1	11.9	12.8
Years discounted	8	9	10	11	12	13	14	15	16	17	18	19	20
Discounting factor	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Discounted cash flow (Rs bn)	2	2	2	2	2	2	2	2	1	1	1	1	1

DCF as on	**31-Mar-25**
Valuation of KFIN	
Risk free rate (%)	7.3
Risk premium (%)	5.0
Beta (X)	1.1
Cost of equity (%)	13.0
WACC (%)	12.5
Terminal growth rate (%)	7.5
Sum of free cash flow (Rs bn)	36
Terminal value (Rs bn)	26
Enterprise value (Rs bn)	62
Equity value (Rs bn)	62
Cash on balance sheet (Rs bn)	5
Enterprise value (Rs bn)	67
No. of shares (mn)	169
Equity value per share (Rs)	394
Calculation of terminal value	
WACC used (%)	12.5
Terminal growth rate	7.5
Terminal value calculation (Rs bn)	0
Cash flow in terminal year	13
Terminal value	274
Discount factor	0.09
Discounted value	26

		WACC (%)							
		9.5	**10.5**	**11.5**	**12.5**	**13.5**	**14.5**	**15.5**	**16.5**
Terminal growth rate (%)	**6.0**	676	521	424	357	308	271	243	220
	6.5	740	553	441	367	315	276	246	222
	7.0	829	593	462	379	322	280	249	224
	7.5	963	647	488	394	331	286	252	226
	8.0	1,187	722	522	412	341	292	256	229
	8.5	1,634	835	568	434	353	300	261	232

Source: Company, Kotak Institutional Equities estimates

Key risks: Yield pressures, execution risks, operational risks, pending litigations

Key risks for KFin include: (1) Faster-than-expected yield compression due to adverse pricing regulations for mutual funds, accentuated by high client concentration, (2) spotless execution is critical to KFIN's growth journey as it operates in 6-7 distinct business segments, spanning across client segments, geographies and development journeys, (3) operational lapses (errors, outages, cyber-attacks) can be potentially damaging for business and reputation, and (4) adverse financial outcomes on pending litigations.

2

Headwinds for MF RTAs; revenue/client diversification is critical

We expect mutual fund registrar and transfer agents to deliver ~8% MF-linked revenue CAGR over the next decade as against 13% growth in the past five years. At the MF industry level, secular fee declines over the next decade could lead to ~15% MF AUM growth, resulting in ~11-12% gross revenue growth for the entire value-chain to partake. Core characteristics of the industry remain unchanged, i.e. a duopoly industry with large entry barriers due to investments needed to build servicing capabilities along with high operational risks involved in switching vendors. These benefits are outweighed by high revenue concentration leading to pricing power being skewed towards AMCs. We see revenue and client diversification as the only way to build scale and strengthen the business model against secular yield pressure facing the asset management industry.

MF AUM growth of ~15% over the next decade

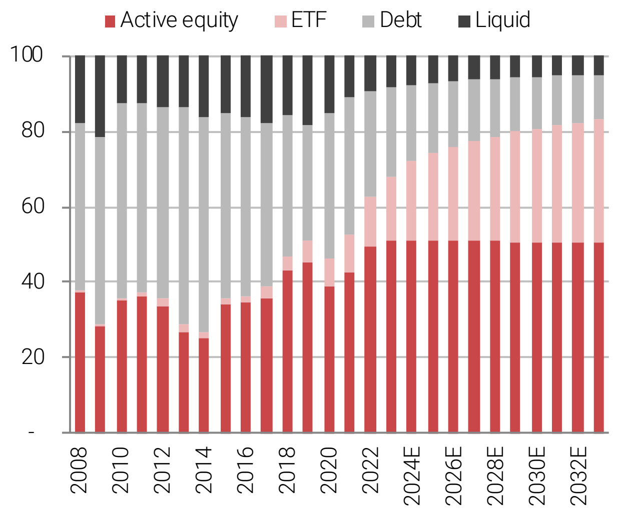
The Indian mutual fund industry's overall AUMs have seen a ~20% CAGR over FY2012-23, with active equity AUM growth higher at ~25% CAGR in this period. We expect MF industry AUM CAGR of ~15% over FY2023-33E. This is based on active equity AUM growth of ~15%, 10% for debt, 7% for liquid and ~25% for passive products.

Active equity flows have averaged 4-5% of gross household financial savings in the past 5 and 10 years, with FY2022 as high as 9%. The volatility in returns will potentially influence retail behavior, leading to volatile flows in some years. We expect active equity AUM growth of 15% over the next 10 years with assumptions of (1) net inflows of ~5% of gross household financial savings (assumed to be at ~9% of nominal GDP), (2) annual returns of 10% and (3) implied gradual loss of market share to passives.

Passive penetration is likely to continue in the next decade (~25% CAGR), driven by (1) pension investments directed into ETFs, (2) improving adoption of passive products by mass retail investors, (3) use of passives in HNI portfolios driven by shift to advisory models and (4) use of cheaper passive alternatives by debt investors, especially for gilts funds. We build relatively more modest ~8-10% CAGR for liquid and debt funds.

Share of passive funds to increase to ~25% over next decade

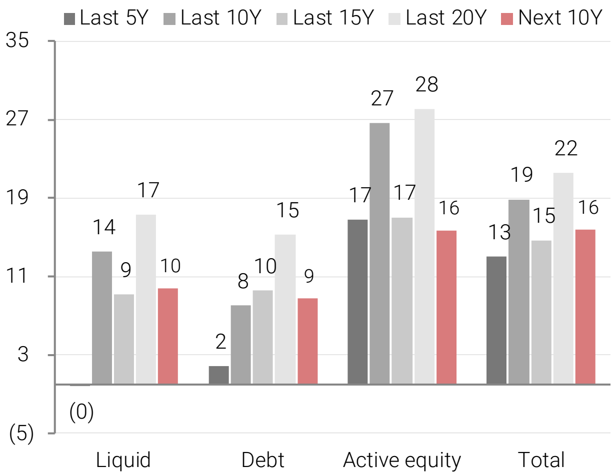
Exhibit 9: AUM mix across asset class, March fiscal year-ends, 2002-34E (%)



Source: AMFI, Kotak Institutional Equities estimates

MF AUM growth expected at ~15% CAGR over the next decade

Exhibit 10: MF AUM CAGR over past 5/10/15/20Y and expected for next 10Y (%)



Source: AMFI, Kotak Institutional Equities estimates

RTAs: Small yet integral part of mutual fund ecosystem

MF RTA contributes nearly ~90% and ~65% of revenues for CAMS and KFin, respectively. As a result, growth prospects of RTAs are tightly linked to fee growth of the mutual fund industry. Expense ratio charged across funds is the starting point of distributable revenues across the MF value chain. We estimate 11% CAGR for industry gross revenues (effective expenses charged from customers and realized in scheme accounts) over FY2023-33E. This incorporates a few medium- to long-term trends for the industry, such as (1) decline in yields for high-margin active equity book due to slab-based pricing, (2) continued rise in commissions shared with distributors and (3) penetration of passive products to outpace active equity AUM growth, while debt AUM (majorly institutional) could come under the risk of substitution by much cheaper passive funds.

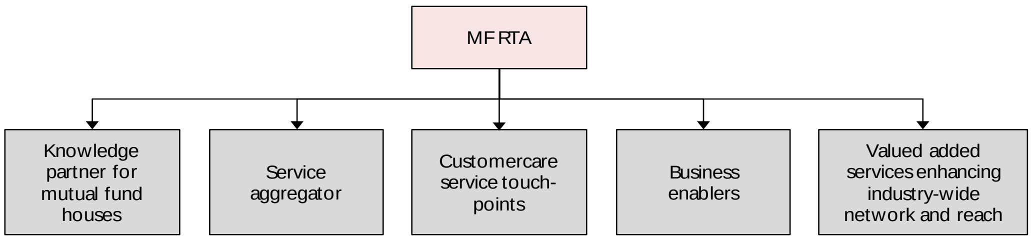
Business model has strengths but outweighed by sector challenges

MF RTAs form a critical backbone of the mutual fund industry considering the large and growing retail investor base and geographical spread of India's mutual fund industry. RTAs provide diversified services to mutual fund houses, distributors, investors and other stakeholders through proprietary technology platforms, branch network and call center services.

- **Critical business partner.** MF RTAs effectively act as partners for mutual fund houses, service aggregators for value-based offerings, offer customer touch-points for investors and distributors, business enablers and distribution engines at a wide scale. These entities provide wide access, assist in increasing sales and help save cost overheads for mutual fund houses with their geographically spread-out branches and back-end call centers along with proprietary technology platforms. This helps the management of the MFs to focus on its key functions, viz. marketing and distribution.
- **Transaction back-office of AMCs.** RTAs, among other things, (1) offers transaction origination services (both paper-based and electronic), including managing KYC, (2) accepts and executes orders on behalf of mutual funds and provides transaction processing and payments services, (3) accepts and processes transaction requests of investors and reports its effect on the unit capital and (4) computes and pays brokerage fees and reconciles bank accounts.
- **Product ownership is a key advantage.** RTA use proprietary software and infrastructure to provide services while strengthening overall operating margins. RTAs generally own and control the product's source code, enabling quickly deployment of product improvements in response to client feedback. The platform is highly scalable to accommodate additional business volumes with limited incremental costs, providing opportunities to improve operating margins and generate operating cash flows.
- **Shielded to fund performance-related risks.** Unlike AMCs, the market shares of RTAs are indirectly related to the performance of their clients and do not shift much based on performance of funds or diversification in the channel mix. Inorganic expansion by AMCs and consolidation of larger players, however, result in a change in market share. As such, RTAs are less exposed to fund performance cycles and are relatively shielded from sudden pressure on revenues.

MF RTAs act as one-stop solution for providing value-added services to mutual fund houses and other related stakeholders

Exhibit 11: Representation of scope of work done by MF RTAs



Source: CAMS RHP, Kotak Institutional Equities

Sector revenue challenges weigh; expect ~10% revenue CAGR over the next decade

RTA is a niche business with total revenue pool of ~Rs14 bn in FY2023 as compared to the revenue pool of ~Rs350 bn for the Indian mutual fund industry. RTAs' fees are primarily linked to AUMs (~Rs12 bn of Rs14 bn) along with add-on revenues depending on the nature of contracted service, i.e. payment support, branch utilization, call center support, etc. RTA revenues in the India MF industry have grown by ~13% CAGR during FY2018-23, similar to mutual fund revenue growth of 12%. We expect revenue CAGR of ~8% over FY2023-33E for the MF RTAs, i.e. CAMS and KFin together, lower than 11% revenue growth expected for the overall MF industry. (Exhibit 12)

We expect revenue growth in MF RTA business to remain under pressure

Exhibit 12: Industry revenue model for MF RTAs, March fiscal year-ends, 2020-33E

	2020	2021	2022	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Last 5Y	Next 10Y
Overall revenues for MF RTAs (Rs bn)	**7.6**	**8.3**	**11**	**12**	**13**	**14**	**16**	**17**	**18**	**20**	**22**	**23**	**25**	**26**	**10**	**8**
CAMS	5	5	7	7	8	9	10	10	11	12	13	14	15	16	11	8
KFin (including Sundaram BNP Paribas)	3	3	4	4	5	5	6	7	7	8	8	9	10	10	8	9
AAUM mix (Rs tn)	**23**	**27**	**34**	**39**	**43**	**50**	**58**	**68**	**79**	**91**	**106**	**122**	**141**	**162**	**15**	**15**
CAMS	17	20	24	26	29	34	39	45	52	60	70	80	92	106	16	15
KFin (including Sundaram BNP Paribas)	6	7	10	12	14	16	19	23	26	31	36	42	48	56	15	16
AAUM mix (%)																
CAMS	69	73	70	68	67	67	67	67	66	66	66	66	66	66		
KFin (including Sundaram BNP Paribas)	27	27	30	32	33	33	33	33	34	34	34	34	34	34		
Yields (bps)	**3.3**	**3.1**	**3.2**	**3.0**	**2.9**	**2.8**	**2.7**	**2.5**	**2.3**	**2.2**	**2.0**	**1.9**	**1.8**	**1.6**	**(4)**	**(6)**
CAMS	2.9	2.8	2.9	2.8	2.7	2.6	2.5	2.3	2.2	2.0	1.9	1.8	1.6	1.5	(5)	(6)
KFin (including Sundaram BNP Paribas)	4.2	4.0	3.8	3.5	3.4	3.2	3.1	2.9	2.7	2.5	2.3	2.2	2.0	1.8	(6)	(6)
Segmental yields (bps)	**3.3**	**3.1**	**3.2**	**3.0**	**2.9**	**2.8**	**2.7**	**2.5**	**2.3**	**2.2**	**2.0**	**1.9**	**1.8**	**1.6**	**(4)**	**(6)**
Actively-managed equity oriented	5.1	4.7	4.6	4.3	4.1	4.0	3.8	3.6	3.4	3.2	3.0	2.8	2.6	2.5		
Debt	2.3	2.1	2.0	1.9	1.7	1.6	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.8		
Liquid	1.8	1.8	1.7	1.7	1.6	1.5	1.4	1.3	1.2	1.1	1.0	0.9	0.8	0.7		
Others	1.7	1.7	1.7	1.8	1.8	1.6	1.4	1.3	1.2	1.1	1.0	0.9	0.8	0.7		
Segmental AAUM (Rs tn)	**23**	**27**	**34**	**39**	**43**	**50**	**58**	**68**	**79**	**91**	**106**	**122**	**141**	**162**	**15**	**15**
Actively-managed equity oriented	10	11	16	19	22	26	30	35	41	47	55	63	72	83	20	16
Debt	8	10	11	10	9	9	9	10	11	12	13	15	16	18	5	6
Liquid	4	3	3	3	3	4	4	4	5	5	6	7	7	8	1	9
Others	2	2	4	6	9	11	15	18	22	27	32	38	45	53	58	24
Segmental revenues (Rs bn)	**8**	**8**	**11**	**12**	**13**	**14**	**16**	**17**	**18**	**20**	**22**	**23**	**25**	**26**	**10**	**8**
Actively-managed equity oriented	5	5	7	8	9	10	12	13	14	15	16	18	19	20		
Debt	2	2	2	2	2	1	1	1	1	1	1	1	1	1		
Liquid	1	1	1	1	1	1	1	1	1	1	1	1	1	1		
Others	0	0	1	1	2	2	2	2	3	3	3	4	4	4		
Comparison with MF industry																
Revenues (Rs bn)	229	241	328	351	376	418	467	522	582	646	717	798	885	978	12	11
Gross TER charged to scheme accounts (bps)	100	90	95	90	87	83	80	77	74	71	68	65	63	61	(2)	(4)
RTA cost (% of gross MF revenues)	3.3	3.5	3.3	3.3	3.4	3.4	3.3	3.2	3.2	3.1	3.0	2.9	2.8	2.7		

Source: Company, Kotak Institutional Equities estimates

Yield compression playing out

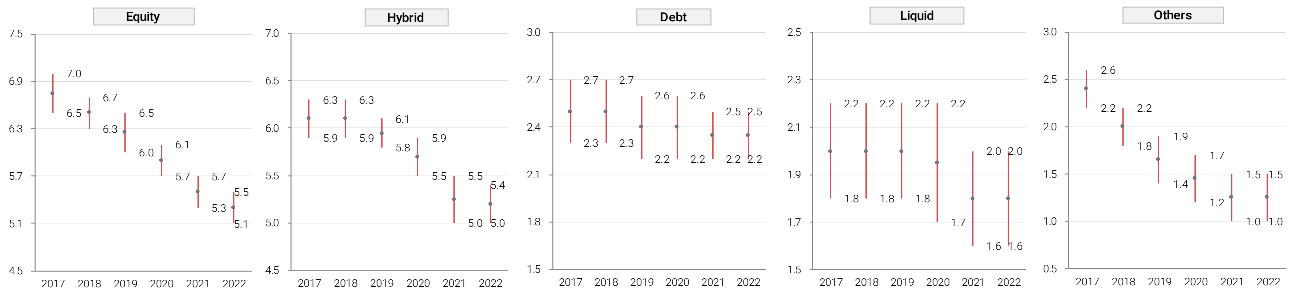
As per our estimate, overall yields of MF RTAs have declined to ~3.0 bps in FY2023 from nearly 3.8 bps in FY2018, an annualized decline of ~4%. Yields compressed despite increase in share of active equity to ~50% from ~35% five years back. Over the past five years, RTA revenue CAGR of 10% has lagged MF gross revenue growth of 12% and AUM growth of 15%. This is explained by (1) increase in AUM size per scheme (fees charged by MF RTA follow a tiered structure, similar to TER charged by AMCs) and (2) renegotiation and decline in fees as select AMCs likely passed on the impact of TER cut to RTAs.

AMCs have been facing regulatory challenges, which have curtailed operating leverage for the sector. Even as industry was emerging from last round of TER cuts in 2019 and its impact on yields and earnings, we are again in a fresh round of regulatory changes that can potentially impact profitability. Under such circumstances, AMCs might intend to aggressively push for reducing RTA cost to manage overall earnings. We have already seen steady and continuous decline in yields across segments (see Exhibit 13-16).

Unlike a duopoly, the pricing power is relatively more skewed towards AMCs due to high contribution to overall revenues by top players (overall MF AAUM managed by top 10- players is ~85%).

Equity yields have seen highest pressure

Exhibit 13: Asset class-wise yields for MF RTAs, March fiscal year-ends, 2017-22 (bps of AUM)



Source: KFin IPO filing, Kotak Institutional Equities

RTAs have delivered stronger revenue growth than AMCs in the past few years

Exhibit 14: Revenues for AMCs and RTA, March fiscal year-ends, 2017-22 (Rs bn)

	2017	2018	2019	2020	2021	2022	5Y CAGR (%)
ABSL	9	11	12	11	10	12	8
Axis	5	7	7	5	6	9	11
HDFC	14	17	19	20	18	21	8
IPRU	13	18	19	20	20	24	13
Nippon	13	16	14	12	10	13	(0)
SBI	7	12	15	13	14	18	20
UTI	8	9	9	8	8	11	6
Above AMCs	69	91	96	87	87	109	9
RTAs	5.8	7.4	7.5	7.6	8.3	10.9	13

Source: Company, Kotak Institutional Equities

RTA cost varies between ~3-7 bps of overall AUM across large AMCs

Exhibit 15: RTA cost and average AUM, March fiscal year-ends, 2018-22

	RTA cost (Rs mn)					AUM (Rs bn)					RTA cost (bps of AUM)				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
ABSL	900	422	811	781	818	2,323	2,492	2,449	2,445	2,926	3.9	1.7	3.3	3.2	2.8
Axis	292	328	462	624	924	721	866	1,179	1,660	2,399	4.0	3.8	3.9	3.8	3.9
Canara Robeco	66	83	102	146	294	95	113	145	210	415	7.0	7.4	7.0	6.9	7.1
HDFC	1,221	1,255	1,273	1,176	1,345	2,817	3,264	3,683	3,840	4,338	4.3	3.8	3.5	3.1	3.1
IPRU	931	1,123	1,217	1,142	1,358	2,880	3,137	3,446	3,679	4,499	3.2	3.6	3.5	3.1	3.0
Invesco	82	101	110	144	214	221	225	225	284	422	3.7	4.5	4.9	5.1	5.1
Mirae	95	146	230	321	516	121	209	388	539	907	7.9	7.0	5.9	6.0	5.7
Nippon	328	400	699	720	800	2,308	2,384	2,083	2,039	2,646	1.4	1.7	3.4	3.5	3.0
SBI	224	761	1,452	1,879	2,638	1,987	2,643	3,388	4,366	5,940	1.1	2.9	4.3	4.3	4.4
UTI	758	887	837	762	1,030	1,481	1,590	1,544	1,571	2,092	5.1	5.6	5.4	4.9	4.9

Source: Company, Kotak Institutional Equities

High variability in RTA cost for equity funds across players

Exhibit 16: RTA cost and average AUM for a sample of equity funds, March fiscal year-ends, 2018-22

	RTA cost (Rs mn)					AUM of a sample equity funds (Rs bn)					RTA cost (bps of AUM)				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
CAMS															
ABSL	445	223	423	415	501	578	697	731	728	977	7.7	3.2	5.7	5.7	5.1
HDFC	525	869	875	750	903	670	1,263	1,442	1,320	1,709	7.5	6.7	5.8	5.4	5.0
SBI	187	608	1,084	1,232	1,711	609	829	971	1,119	1,822	2.9	7.1	10.9	10.7	9.1
IPRU	575	773	797	707	913	1,144	1,351	1,422	1,404	2,053	5.0	5.7	5.6	5.0	4.4
DSP	269	244	254	265	329	372	402	407	456	680	7.2	6.1	6.2	5.8	4.8
FT	574	541	535	466	311	507	517	505	430	509	11.3	10.5	10.6	10.8	6.1
IDFC		85	185	165	205		182	177	168	236		4.7	10.4	9.8	8.7
Kfin															
UTI	376	454	468	399	602	403	483	489	523	793	9.3	9.4	9.6	7.6	7.6
Nippon			269	278	430			853	778	1,093			3.2	3.6	3.9
Axis	81	119	227	342	558	105	209	349	589	1,048	7.5	5.5	6.3	5.6	5.2
Mirae	89	136	218	303	488	114	186	324	492	837	7.8	7.3	6.7	6.2	5.8
Canara Robeco	56	75	94	135	279	60	80	110	160	349	9.4	9.3	8.5	8.4	8.0
Invesco	25	51	73	104	160	31	68	109	145	235	7.9	7.5	6.7	7.2	6.8
Motilal Oswal	124	157	159	151	162	136	185	187	180	203	9.1	8.5	8.5	8.4	8.0
Edelweiss	6	12	36	55	107	16	31	80	54	121	4.0	3.9	4.5	7.8	7.0

Source: Company, Kotak Institutional Equities

Market structure: An entrenched duopoly

The MF RTA industry in India is duopolistic in nature with only two players: CAMS and KFin Technologies (KFin). CAMS is the market leader and manages ~70% of MF AAUM while KFin manages the remaining ~30%. Market share varies across asset classes with KFIN's market share in equities higher (~35%) than its overall market share.

CAMS, being the market leader, handles six out of top 10 accounts in terms of market share measured both on overall as well as equity/hybrid AAUM. Axis, Mirae, Nippon and UTI are the largest accounts for KFIN whereas Aditya Birla, HDFC, ICICI Prudential and Kotak are CAMS' largest accounts. Worth noting that CAMS has a higher share among bank-backed AMCs (i.e. HDFC, IPRU, Kotak and SBI) compared to KFin (Axis).

KFin Technologies acquired Sundaram BNP Paribas Fund Services (managed two clients with ~2% of AUM) in October 2019. Franklin Templeton transferred its in-house RTA to CAMS. Historical market shares for CAMS and KFIN (assuming the above two transactions) suggests around ~500 bps peak-trough movements across time period (see Exhibit 17-18).

CAMS has close to ~70% market share of overall MF AUM

Exhibit 17: Overall AAUM of top-20 MFs and market share of CAMS and KFin, March fiscal year-ends, 2014-23 (Rs bn)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SBI MF	524	588	808	1,196	1,725	2,282	2,997	4,095	5,817	6,759
ICICI Pru MF	687	988	1,328	1,861	2,527	2,792	3,192	3,493	4,527	4,991
HDFC MF	829	1,064	1,321	1,624	1,985	2,844	3,438	3,610	4,169	4,275
Nippon India MF	819	1,018	1,297	1,617	2,070	2,115	1,869	1,922	2,616	2,845
Kotak MF	299	285	450	654	1,056	1,249	1,574	1,914	2,641	2,813
Aditya Birla SL MF	675	866	1,148	1,565	2,158	2,294	2,303	2,269	2,836	2,730
Axis MF	111	169	259	403	604	758	1,092	1,621	2,369	2,426
UTI MF	583	679	831	1,034	1,281	1,399	1,358	1,443	2,032	2,283
Bandhan MF	318	368	481	524	635	639	921	1,115	1,218	1,168
Mirae MF	5	14	26	59	128	216	369	554	943	1,126
DSP MF	230	292	334	509	779	782	700	800	1,051	1,103
Edelweiss MF	61	96	80	58	86	115	158	415	757	1,089
Tata MF	131	171	250	344	411	475	475	531	769	916
HSBC MF	80	106	141	212	409	539	565	555	700	734
Franklin Templeton MF	399	547	664	698	869	967	1,029	695	675	642
Canara Robeco MF	58	65	61	75	95	113	145	210	415	573
Invesco MF	110	151	169	195	221	225	225	284	422	436
Sundaram MF	89	114	135	141	187	207	210	208	297	410
Motilal Oswal MF	3	14	41	70	146	194	198	231	336	329
PPFAS MF	3	5	6	7	9	15	26	62	182	299
Total of above	6,014	7,597	9,829	12,844	17,380	20,223	22,843	26,026	34,772	37,947
Industry AAUM	6,425	8,110	10,475	13,619	18,343	21,063	23,456	26,601	35,668	39,177
CAMS market share (%)	**66**	**66**	**66**	**68**	**69**	**71**	**74**	**72**	**69**	**68**
KFIN market share (%)	**34**	**34**	**34**	**32**	**31**	**28.8**	**26.1**	**27.6**	**30.5**	**31.9**

Source: ACE MF, Kotak Institutional Equities

KFin's equity MF AAUM market share has been in 30-35% range

Exhibit 18: Overall equity AAUM of top-20 MFs and market share of CAMS and KFin, March fiscal year-ends, 2014-23 (Rs bn)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
SBI MF	138	185	256	399	648	868	1,010	1,164	1,928	2,533
ICICI Pru MF	181	362	532	729	1,162	1,373	1,449	1,439	2,102	2,513
HDFC MF	359	524	570	627	857	1,463	1,662	1,539	1,979	2,271
Axis MF	28	62	121	173	262	396	561	838	1,389	1,537
Kotak MF	32	65	126	177	365	491	631	750	1,208	1,423
Nippon India MF	249	363	470	516	747	916	887	806	1,126	1,246
Aditya Birla SL MF	105	190	293	422	747	901	898	853	1,166	1,189
Mirae MF	5	13	25	56	114	186	324	492	837	995
UTI MF	229	307	352	397	470	549	554	593	876	934
DSP MF	98	142	164	221	372	402	407	456	680	707
Tata MF	34	51	94	123	149	201	237	275	484	555
Franklin Templeton MF	137	207	303	411	527	536	523	447	531	538
Canara Robeco MF	20	26	33	42	62	82	113	163	358	520
HSBC MF	25	44	72	109	246	361	358	328	418	424
Sundaram MF	46	66	81	96	146	177	176	166	247	335
Bandhan MF	64	113	138	128	172	211	267	242	299	305
Invesco MF	7	16	25	24	35	72	111	150	243	292
PPFAS MF	3	5	6	7	9	14	23	53	168	285
Edelweiss MF	4	11	30	34	57	71	80	88	182	231
Motilal Oswal MF	1	10	38	67	136	185	187	185	224	213
Total of above	1,763	2,764	3,730	4,757	7,282	9,457	10,458	11,028	16,445	19,045
Industry AAUM	1,792	2,861	3,897	4,925	7,539	9,720	10,698	11,273	16,956	19,886
CAMS market share (%)	**66**	**66**	**66**	**68**	**70**	**71**	**70**	**68**	**65**	**65**
KFIN market share (%)	**34**	**34**	**34**	**32**	**30**	**29**	**30**	**32**	**35**	**35**

Source: ACE MF, Kotak Institutional Equities

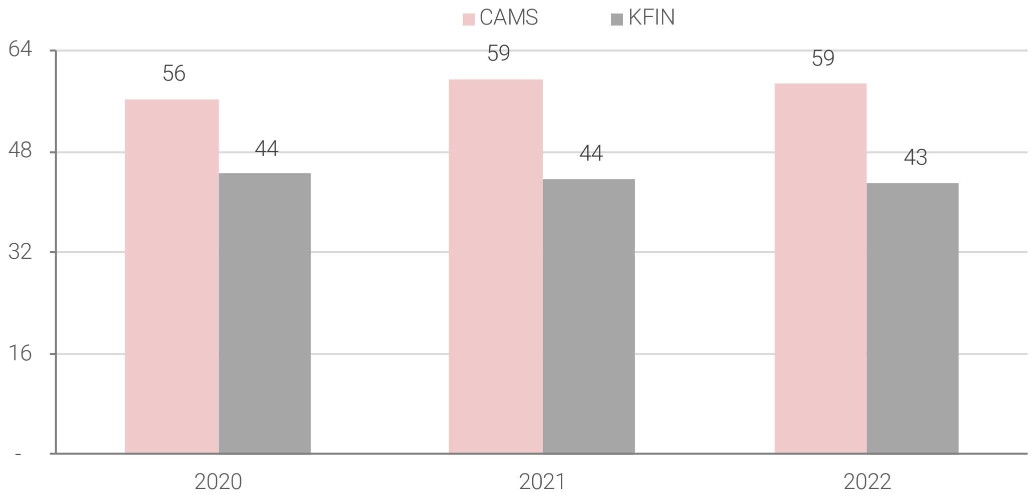
Revenue diversification efforts will be an ongoing theme over the medium term

The core MF RTA business generates attractive free cash flows given the operating leverage generated from the AUM growth over the past few years and a relatively mature and well-scaled operating platform. Globally as well, the asset servicing industry thrives on building scale once the large part of investments is already made in creating a product or a managed-service platform.

In India, the challenge for both players is in creating scale organically with revenue growth prospects significantly pegged to a challenging operating environment (cyclicality, fee pressures, cost inflexibility, etc.) for the MF industry. In this context, high client concentration leads to much weaker inability to control prices (Exhibit 19-21). In their own ways, both companies are solving for this conundrum by leveraging their domain/tech expertise to create revenue verticals in areas such as transfer agency/fund accounting in alternative investments, record keeping for National Pension Scheme, e-repository for insurance policies, account aggregator and associated services, etc.

CAMS likely has higher revenue concentration of top-3 AMC clients

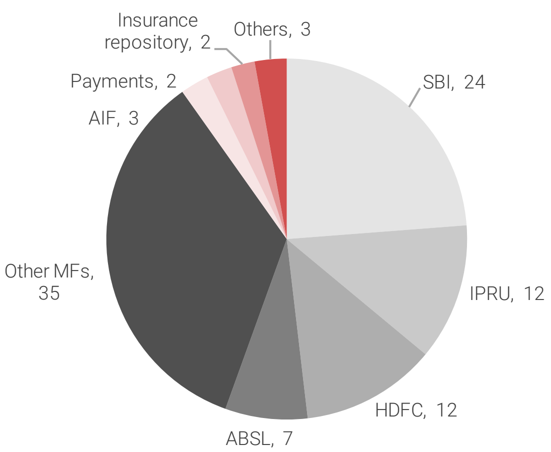
Exhibit 19: Estimated revenue share of top-3 AMC clients, March fiscal year-ends, 2020-22 (%)



Source: Company, Kotak Institutional Equities

CAMS has higher revenue concentration among its large clients

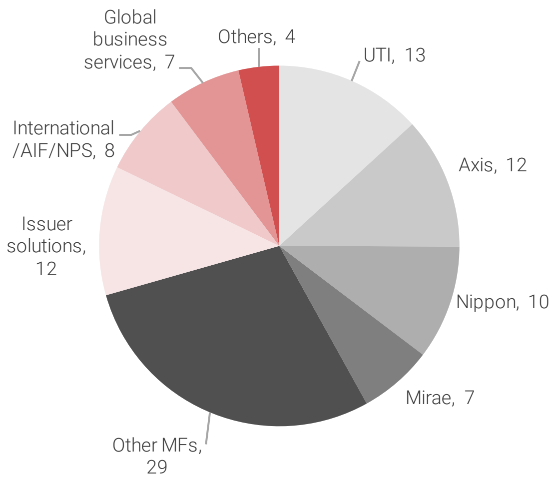
Exhibit 20: Revenue split across large clients, March fiscal year-end, 2022 (%)



Source: Company, Kotak Institutional Equities

KFin has diversified revenue profile but has smaller AMC clients

Exhibit 21: Revenue split across large clients, March fiscal year-end, 2022 (%)



Source: Company, Kotak Institutional Equities

3

KFin Technologies: Diversified financial services infrastructure platform

KFin is a multi-product, multi-geography, diversified financial services infrastructure company providing solutions to assets managers, alternate investment funds, wealth mangers, pension funds and companies in India and South-East Asia. The company mostly operates in duopoly or oligopoly markets with high entry barriers and switching costs for clients. KFIN is the #2 player in an MF RTA duopoly with ~30% market share. The revenue profile is relatively diversified with the majority coming from MF RTA (~65-70% of revenues), followed by corporate registry (~15%) and fast-growing international/domestic alternatives (~10%).

Revenue growth has a strong capital market linkage; international business is a wild card

KFin's overall revenues grew ~13% CAGR over FY2019-23 and registered 17% CAGR adjusting for other operating revenues (largely comprising recoverable expenses). We expect 12% revenue growth over FY2024-26E, which reflects: (1) 13% revenue growth in domestic MF RTA vertical on the back of ~17% AUM growth (marginal decline in equity market share, offset by lower exposure to debt funds), (2) moderate revenue growth (~14%) in issuer solutions with high sensitivity to IPO activity, (3) sustained high growth (~25%) in the international/domestic AIF segment given strong pipeline and potential client wins, and (4) negligible growth in the global business service due to headwinds from to the US mortgage markets. We expect EBIT margins in the 36-38% (~39/36% in FY2022/23) with the ability to cut costs in an environment where revenue growth becomes more challenging. (Exhibit 22)

We expect 12-13% revenue growth over FY2024-26E with a stable mix across segments

Exhibit 22: Overall and segmental revenues, March fiscal year-ends, 2019-26E

	2019	2020	2021	2022	2023	2024E	2025E	2026E	2019-23 CAGR	2024-26E CAGR
Revenues (Rs mn)										
Domestic MF business	2,677	2,804	3,174	4,514	4,862	5,359	5,922	6,608	16	11
Issuer solutions	507	510	622	742	983	1,130	1,293	1,471	18	14
International/AIF/NPS/others	277	314	384	484	653	812	1,035	1,270	24	25
Global business services	295	362	420	422	438	437	448	460	10	2
Others (recoverables)	657	509	211	233	266	305	351	404	(20)	15
Total	4,413	4,499	4,811	6,395	7,200	8,043	9,050	10,213	13	12
% of total										
Domestic MF business	61	62	66	71	68	67	65	65		
Issuer solutions	11	11	13	12	14	14	14	14		
International/AIF/NPS/others	6	7	8	8	9	10	11	12		
Global business services	7	8	9	7	6	5	5	5		
Others (recoverables)	15	11	4	4	4	4	4	4		
Total	100	100	100	100	100	100	100	100		
YoY (%)										
Domestic MF business		5	13	42	8	10	11	12		
Issuer solutions		1	22	19	32	15	14	14		
International/AIF/NPS/others		13	22	26	35	24	27	23		
Global business services		23	16	1	4	(0)	3	3		
Others (recoverables)		(23)	(59)	10	14	15	15	15		
Total		2	7	33	13	12	13	13		
Total (ex other revenues)		6	15	34	13	12	12	13		

Source: Company, Kotak Institutional Equities estimates

Five key business segments and one low-cost third-party center

A large part of KFin's business model has strong linkage to capital markets where it operates across domains. KFin provides investor solutions to (1) domestic asset managers, (2) domestic alternate investment funds (AIFs) and wealth manager/PMS houses, (3) investor solutions to asset managers, AIFs and wealth managers in South-East Asia, (4) issuer solution to domestic companies and (5) investor solutions as a central record keeping agency (CRA) for NPS. Additionally, the company serves as a global center of excellence for Computershare (global business service segment/GBS), a global mortgage and issuer services provider. Domestic mutual fund investor solutions business remains the largest segment contributing 60-70% of revenues over the past few years. Exhibit 23 gives a detailed layout of range of activities across major verticals and their revenue contribution.

MF RTA contributes about 65-70% of revenues

Exhibit 23: Detailed description of various products and services offered by KFIN

	Front-end	Middle office	Back-end	Value added service	Share of fee based revenues in 9MFY23 (%)
Investor solutions					
Domestic mutual fund solutions	Account setup, transaction origination, channel management and customer communication management	Transaction processing, unit allocation, KYC, redemption brokerage calculations, payment processing and fund accounting reconciliation	Compliance/regulatory reporting, record keeping and MIS/decision support	Distributor platform, investor platform, IT infrastructure and web hosting and data analytics	67.5
International	Account setup and transaction origination	Transaction processing, unit allocation, KYC, redemption brokerage calculations and payment processing	Compliance/regulatory reporting, record keeping and MIS/decision support	Online Tx platforms, website and apps and other platform solutions	8.1
Alternatives and wealth management	Account setup and transaction origination	Transaction processing, unit allocation and redemption reconciliation	Compliance/regulatory reporting and record keeping	Wealth Management platform- IWaap for wealth managers	
Pension services	Account setup	Transaction processing, fund accounting, unit allocation, redemption brokerage calculations and reconciliation	Compliance/regulatory reporting and record keeping	NA	0.9
Issuer solutions					
Issuer solutions	Folio creation and maintenance	Transaction processing for IPO, FPO, etc., corporate action processing, folio updates and dividend/interest processing	Compliance/regulatory reporting, record keeping and MIS/decision support	Virtual voting, e-AGM, e-Vault, Fintrack and other platform solutions	13.6
Global business service					
Global business service	NA	NA	Mortgage services, legal services, transfer agency and finance and accounting	NA	6.1

Source: Company, Kotak Institutional Equities

Longstanding client relationships, high switching costs and recurring revenues

KFin's business is characterized by durable and deeply entrenched client relationships. Large clients, especially in mature verticals such as MF RTA and issuer solutions, have been serviced by KFin for many years, with average vintage of 10-15 years (see Exhibit 25). Once clients choose a vendor and scale up their business, switching the service provider can be an onerous task with operational risks such as service outages, errors, compliance lapses, etc., which can potentially extend to damaged reputation for the client. This leads to high switching costs as well as high share of recurring revenues.

- **A challenger in the domestic MF business.** Given the sticky, long-term nature of partnerships, KFin's fortunes in the domestic MF business is linked to how some of its large clients maintain their market share (predominantly a function of fund performance) along with success of new entrants in gaining scale.

- **Client wins from organic and inorganic means.** KFin continues to focus on augmenting its client base in the already established business segments (MF RTA and issuer solution business) and ramping up new client additions in the new business segments. The company has added nine new clients in the MF RTA segment (including two AMCs which are yet to commence operations and two AMCs which were added due to an acquisition of Sundaram BNP Paribas Fund Services) since FY2019. The company recently added 23 international clients through the acquisition of a fund accounting solutions provider Hexagram in FY2022.

- **High share of recurring revenues.** For KFIN, revenues from entities that have been clients for more than five years constituted ~80% of total income in 1HFY23. Further, the share of recurring revenues remains high due to nature of contracts, which are linked to AUM size and transaction volumes. Share of recurring revenues account for 96-99% of total revenues over FY2020-1HFY23.

- **Opportunities from cross-sell.** Long vintage of relationship with clients also provides opportunities to cross-sell activities such as infra and hosting facilities, mobile application development, solutions such as investor onboarding and e-voting platforms. Along with the organic business growth, these efforts have helped in improving revenue retention rates in MF RTA and making the client relationship stronger.

Steady pace of client additions across business lines

Exhibit 24: New client additions across various business segments, March fiscal year-ends, 2019-1HFY23 (#)

	2019	2020	2021	2022	1HFY23
Investor solutions					
Domestic mutual fund solutions	1	4	2	2	0
International investor solutions	5	3	1	6	1
Alternatives and wealth management solutions	18	40	152	28	0
Pension services	36,091	151,825	151,089	386,424	62,134
Issuer solutions	**443**	**863**	**365**	**357**	**326**
Global business service	**1**	**0**	**0**	**0**	**0**

Source: Company, Kotak Institutional Equities

Revenue concentration remains low

Exhibit 25: Details of large clients, revenue share and vintage across business verticals

Business	Top 5 clients	Revenue share of top-5 clients (% of 9MFY23 revenues)	Duration of relationship (years)
Domestic mutual fund solutions	Nippon Life AMC	49.3	24
	UTI AMC		13
	Axis AMC		12
	Mirae Asset Mutual Fund		14
	Customer A		11
International investor solutions	BPI Investment Management	2.5	6
	Customer A		6
	Customer B		3
	Customer C		2
	Customer D		12
Issuer solutions	RIL	2.4	17
	Infosys		13
	Hindustan Unilever Ltd.		17
	Customer E		12
	Customer F		11
Global business services	Computershare	6.4	8

Source: Company, Kotak Institutional Equities

Kfin interacts with a wide array of clients across segments

Exhibit 26: Select clientele of KFIN across verticals

Source: Company, Kotak Institutional Equities

(1) Domestic mutual fund RTA is the core business

While diversification efforts continue, the domestic mutual fund RTA business remains the mainstay with 65-70% revenue contribution over the past few years. While KFin has gained market share in recent years, market share tends to level off over longer period of time.

- **#2 player with ~30% market share.** KFin services ~Rs13 tn MF AUM across 26 (out of 46 AMCs), having market share of ~32% in terms of overall average AUM for FY2023. KFin also acquired the Sundaram BNP Paribas Fund Services business in FY2020—if we were to look at the market share assuming a duopoly structure over the past decade, KFIN's market share has moved in the ~30-34% range (Exhibits 27-28).

- **More geared to equities; market share gains in recent years.** KFIN's equity market share has improved to ~35% in FY2023 from 27% in FY2019 (29% adjusting for acquisition of Sundaram BNP's RTA business). Share of equity has increased to ~55% in FY2023 from ~40% in FY2019. KFIN's share of equities is higher than CAMS at 45%. As we see with overall AUM, market share has remained within a ~500 bps band from trough to peak for the past 10 years.

- **More than 40% market share in SIP flows.** KFin has been a beneficiary of increasing flows through the SIP route. Its market share of SIP flows has improved to ~42% in 9MFY23 compared to ~30% in FY2019. Its market share of SIP AUM has improved to ~32% in 9MFY23 compared to ~23% in FY2019. The current SIP book of KFIN implies 10% yoy steady-state equity AUM growth, compared to 8% for the industry (Exhibit 32).

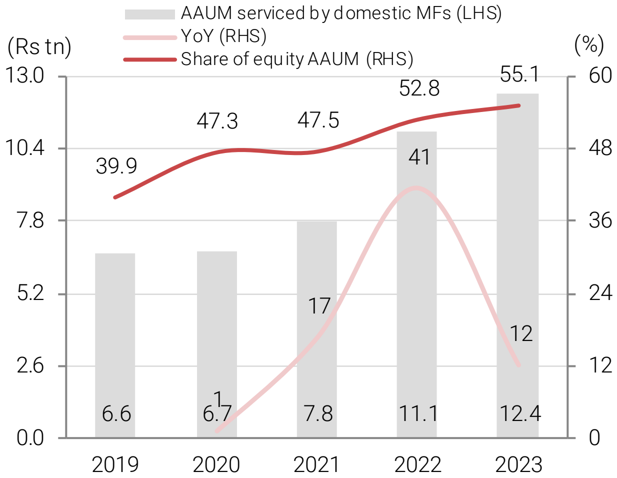
- **Deal wins track-record**. KFin has been able to pick up quite a few recent MF RTA mandates. While asset management remains a concentrated business across most markets including India, capturing higher share of new comers could help create future growth optionality. Among the large wins, Bajaj Finserv has recently filed a few products for regulatory approval.

- **Multiple sources of revenue; AUM-based is the pre-dominant method.** An agreement with the AMC is typically valid for three to five years, subject to renewal, and pricing is renegotiated every one to three years. Fees earned from the domestic RTA business is an interplay of (1) AUM-based fees, (2) new fund offer processing fees, (3) investor service center charges, (4) transaction fees and (5) fees for additional services such as call center support and SMS services.

- In addition, the company is required to indemnify clients with the actual loss incurred by them for actions arising out of or attributable to KFIN, which includes events of errors arising due to (1) wrong processing, (2) missing out processing the application and reporting, (3) misplacing application and (4) serious violations as per guidelines issues by SEBI, and shall be subject to an agreed maximum aggregate liability of 12 to 36 months of agreed fees under such agreements.

Strong AAUM CAGR at ~18% CAGR over FY2019-22

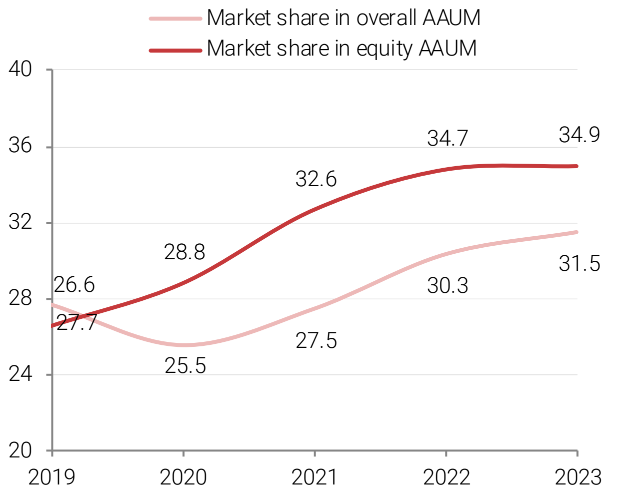
Exhibit 27: AAUM of domestic MFs served by KFIN, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

Equity market share accretion over FY2019-22 was higher than overall AAUM market share gains

Exhibit 28: Market share in overall and equity AAUM for KFIN, March fiscal year-ends, 2019-23 (%)



Source: Company, Kotak Institutional Equities

In India, the investor solutions business that it operates in typically has two to three players, as it requires high technology intensity and a track record of delivery at scale, and are subject to stringent compliance and regulations, resulting in high barriers to entry for any new entrant.

Track record of recent client wins in the MF RTA business

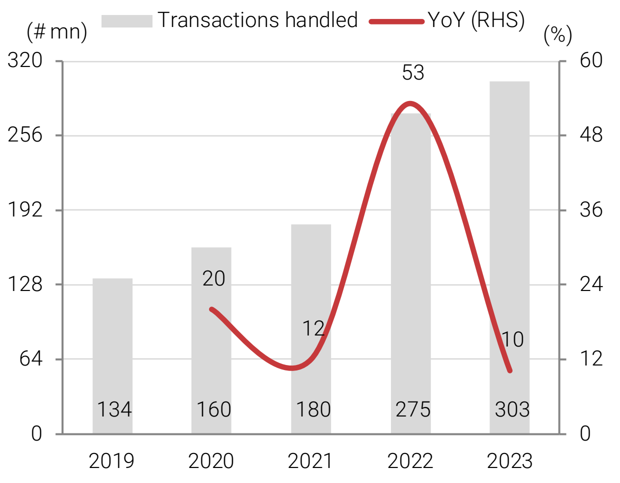
Exhibit 29:

Name of mutual fund house	RTA name
Commenced operations since FY2017 (newest to oldest)	
Frontline Capital Services Limited	KFIN
Bajaj Finserv	KFIN
NJ Mutual Fund	KFIN
Samco Mutual Fund	KFIN
ITI Mutual Fund	KFIN
Trust Mutual Fund	KFIN
Quant Mutual Fund	KFIN
Old Bridge Capital Management Private Limited	KFIN
Yes Mutual Fund (now White Oak Capital)	CAMS
Mahindra Mutual Fund	CAMS
Zerodha	CAMS
Helios Capital Management PTE Limited	CAMS
Navi Mutual Fund	CAMS
Mutual fund licenses under consideration by SEBI	
Alchemy Capital Management Private Limited	NA
Angel One Limited	NA
Phonepe Private Limited	NA
Unifi Capital Private Limited	NA
Wizemarkets Analytics Private Limited	NA

Source: Company Reports, AMFI, CRISIL Research, Kotak Institutional Equities

Strong growth in overall transactions handled in past few years

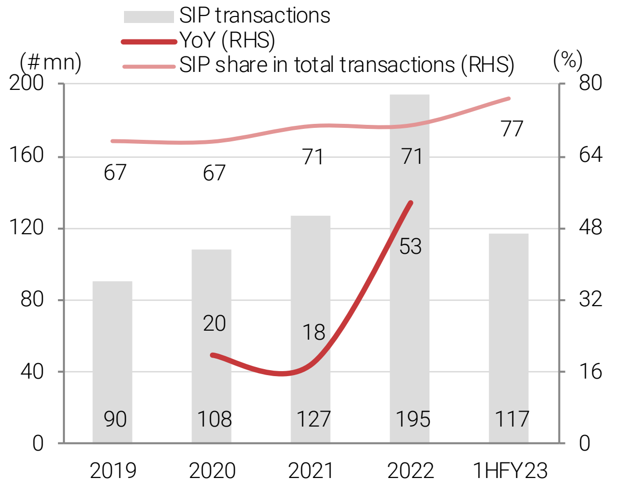
Exhibit 30: Transactions handled by KFin, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

Share of SIP transactions in overall transactions has increased

Exhibit 31: Overall and SIP transactions of KFIN, March fiscal year-ends, 2019-9MFY23



Source: Company, Kotak Institutional Equities

KFin's SIP flow market share is ~40%, supporting improvement in SIP AUM market share to ~32%

Exhibit 32: KFin's market share in SIP AUM and flows, March fiscal year-ends, 2019-9MFY23 (Rs bn)

	2019	2020	2021	2022	9MFY23
KFIN					
SIP AUM	617	641	1,258	1,784	2,125
SIP flows	286	353	381	529	480
SIP AUM market share (%)	*23.1*	*26.7*	*29.4*	*31.0*	*31.5*
SIP flow market share (%)	*30.9*	*35.3*	*39.6*	*42.4*	*42.1*
SIP inflow (% of open equity AUM)	*11.5*	*12.7*	*12.5*	*11.5*	*10.1*
CAMS					
SIP AUM	2,051	1,758	3,021	3,979	4,621
SIP flows	641	647	580	717	661
SIP AUM market share (%)	*76.9*	*73.3*	*70.6*	*69.0*	*68.5*
SIP flow market share (%)	*69.1*	*64.7*	*60.4*	*57.6*	*57.9*
SIP inflow (% of open equity AUM)	*9.0*	*8.5*	*8.6*	*8.0*	*7.5*
Industry					
SIP AUM	2,668	2,399	4,279	5,764	6,747
SIP flows	927	1,001	961	1,246	1,142
SIP inflow (% of open equity AUM)	*9.7*	*9.6*	*9.8*	*9.2*	*8.4*

Source: Company, Kotak Institutional Equities

(2) Geographic expansion in select South-East Asian markets

- **Rs550 bn AUM across ~40 clients.** KFIN provides investor solutions (similar to domestic MF RTA business) to clients in select South-East Asian countries. The company offers these solutions to more than 30 international mutual funds, employee provident funds, private retirement schemes and fund distributors. The company currently services 24 clients in Malaysia, 3 in the Philippines and Hong Kong, 1 in Middle East and Canada each and 3 in Gift city. Additionally, 2 clients in Malaysia, 2 in Singapore and 5 in Gift city yet to go live. Overall AUM of the international investor solutions business is ~Rs550 bn (~5% of domestic MF AAUM serviced). Malaysia is the largest geography. (Exhibit 33-34)

- **Scope to penetrate South-East Asian markets.** There is considerable potential for RTAs to penetrate in select South-East Asian markets (Appendix 1). While overall MF AUM growth in these markets has been a tad lower than India over the past years, overall market size is significantly higher in select countries (Hong Kong and Singapore) and MF/AIF/wealth management penetration is lower in select other countries (Philippines, Indonesia and Thailand). As such, growth in the international investor solutions business will be a combination of increasing penetration in mature markets and riding the growth in newer markets.

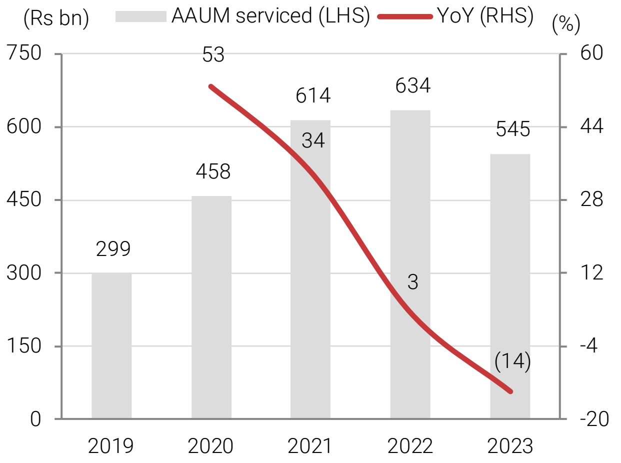
- **Right to win stems from cost and quality.** Outsourcing of registry/fund accounting to a third-party has benefits to save costs, variablize expenses and benefit from superior technology and domain expertise. Kfin recently received in-principle clearance from Thailand's Securities & Exchange Commission for setting-up operations.

- **Business is in the investment mode currently.** The company has plans to deepen its presence and hence has recently expanded international sales team by adding country sales heads in South-East Asia. As it expands into newer markets (e.g. Thailand), KFin intends to benefits from cross referrals from within existing clients who operate in multiple geographies.

- **Ambitious long-term plans.** KFin aims to become a leader in the third-party investor solutions business across these markets. KFin plans to exploit the existing technical capabilities and cost advantages in India to expand its reach by becoming delivery partners to global investor and issuer service. KFin is not averse to acquiring companies, which gives it presence/capabilities in newer geographies/areas.

AUM growth was strong in FY2019-21 and slower afterwards

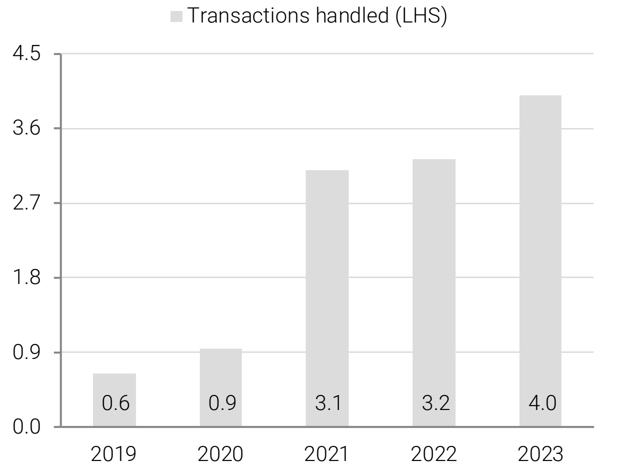
Exhibit 33: AAUM in international investor solutions business, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

New client additions support strong growth in transactions

Exhibit 34: Transaction volume in the international investor solutions business, March fiscal year-ends, 2019-23 (# mn)



Source: Company, Kotak Institutional Equities

Total addressable market in South-East Asia is US$1.3 tn or 2.5X of India's mutual fund industry

Exhibit 35: South-East Asia: Opportunity size

	Singapore*	Hong Kong	Malaysia	Philippines	Indonesia	Thailand
No of Asset Management Companies	1,108 (Registered & licensed fund managers)	56	92	9	80	22 (51 incl. AIFs)
Mutual Fund Industry AUM Dec-22 ($bn)	691 ▲ 13% y-o-y	165 ▼ 14% y-o-y	218 ▼ 5% y-o-y	5 ▼ 43% y-o-y	32 ▼ 21% y-o-y	172 ▼ 12% y-o-y
AUM CAGR (since 2016)	13.1%	5.2%	4.5%	0.3%	5.2%	3.6%
	Soon to start rendering services	Entered new markets over last few years			Continuous expansion of TAM[1]	In the process of setting up operations

Source: Company

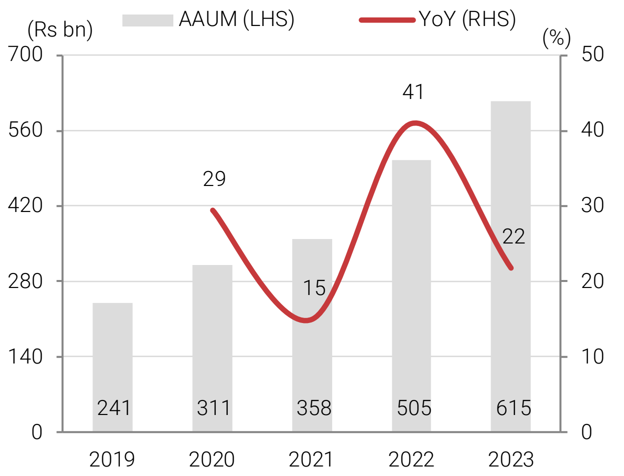
(3) Investor solutions for fast-growing AIF and wealth businesses

KFin provides a variety of services to alternate investment funds (AIFs) and wealth managers, including registry and transfer agency services (RTA), fund accounting, customer communication management and compliance and regulatory reporting. Overall AAUM serviced delivered 30% CAGR over FY2019-3QFY22 to ~Rs640 bn led by healthy addition of new clients (see Exhibits 36-37). In India, the company serves ~350 funds from ~230 clients as of end-FY2023.

Digital journey with multiple value-adding propositions for AIF/wealth clients. KFin provides a seamless experience to the client via a digital on-boarding process. Further, the company provides an online portal for clients and investors with mobile application for end-users to access customized portfolio statements. Additionally, the company has a healthy pipeline of new value-added product and service offering for the AIF and wealth management segment. Select products in the pipeline include (1) 'AIF-in-a box', a comprehensive platform for AIFs and (2) 'IWAPP NXT', an online wealth management platform for wealth managers.

~30% CAGR in alternative and wealth management solutions business (on a low base)

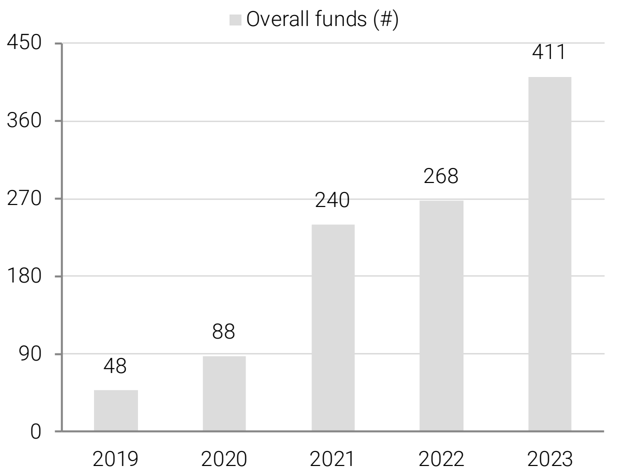
Exhibit 36: AAUM serviced in the alternative and wealth management solutions, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

Continued addition of new funds in the alternate investment and wealth management solutions business segment

Exhibit 37: Number of funds handled for alternative and wealth management clients, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

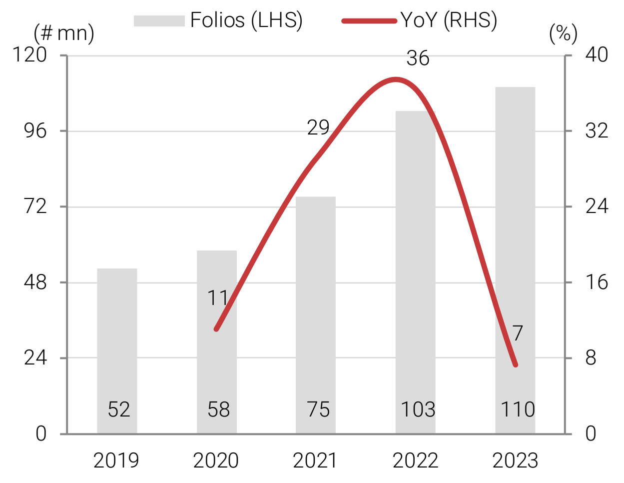
(4) Leader in the issuer solutions

As an issuer solutions provider, KFin provides a comprehensive set of corporate registry services including investor folio creation and maintenance, transaction processing for various corporate events and issues including initial public offerings, follow on public offerings, dividends, buybacks, rights issue and bonus issues, along with various compliance-related reporting requirements and record keeping. The company also provides various value-added services and products to these issuers. Large in-house processing capabilities and in-house record management services provide the necessary operational backbone for this business segment.

- **Largest issuer solutions player.** KFin is the largest issuer solutions provider in India based on the market capitalization of NSE-500 companies serviced (~50%). As of 3QFY23, the company serviced ~5,100 companies in the issuer segment and has over ~110 mn investor folios. Additionally, KFin had ~40-60% market share in IPOs based on issue size over FY2021-1HFY23. KFIN's issuer solution services are extended to unlisted entities also (Exhibits 38-39).
- **Strong client wins.** KFIN has seen large new client wins in recent times such as LIC as well as client migrations from competitors such as ICICI Bank, Varun Beverages, Devyani International, Castrol India and Union Bank of India. Given its relationship with the Reliance group, there are potential opportunities from the future listings of Jio Financial Services, R-Jio and Reliance Retail.
- **Folio-based fee model**. KFin primarily has a folio-based fee model along with transaction basis or fixed fee for corporate actions and subscription or usage basis for value-added services. Revenues earned from clients comprise (1) annual folio maintenance charge per shareholder/beneficiary owner, (2) fees for dividend processing, printing of dividend warrants and postal register, (3) fees for reconciliation of refund order or dividend warrant, and (4) fees for scanning of signatures and maintenance of communication links for each depositary to cover cost of maintaining ongoing linkage expenditure incurred for the depositary link operation per month per depositary.

Healthy growth in overall retail folios

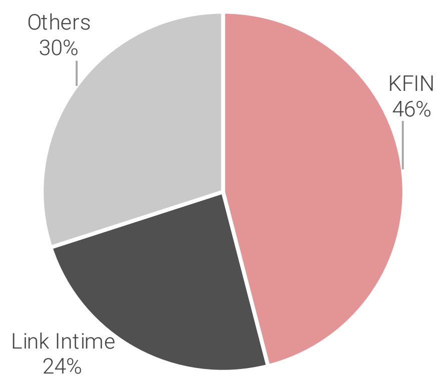
Exhibit 38: Folios managed by KFin in the issuer solutions business, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

KFIN has leading market share in issuer solutions business

Exhibit 39: Market share in issuer solutions as per market cap. of companies, as of September 2022 (%)



Source: Company, Kotak Institutional Equities

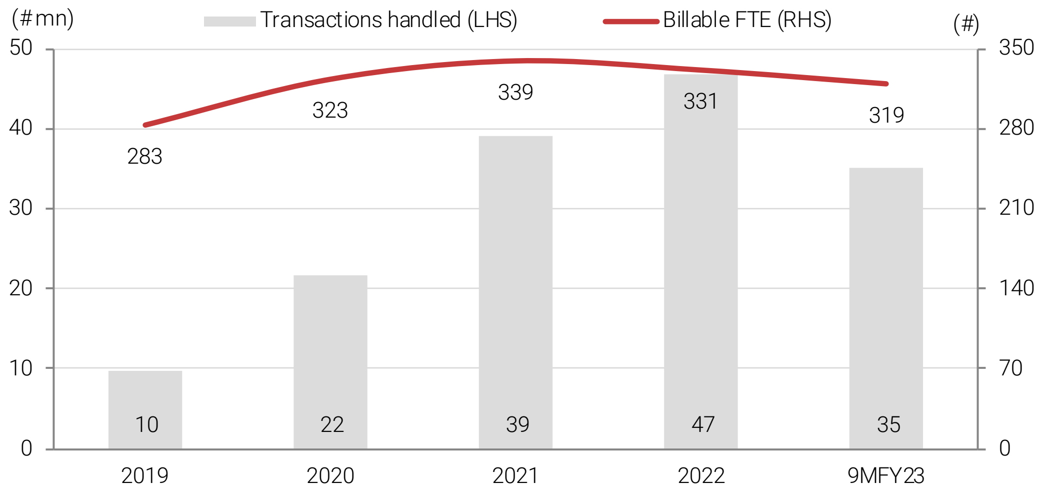
(5) Global business service — serves Computershare, primarily in the US

KFin manages a global center of excellence for a global mortgage and issuer services providers who are engaged in providing global business services such as mortgage services, legal services, transfer agency services and finance and accounting services (see Exhibit 40). KFIN leverages its technology and executions skills to operate the outsourced business; India's low per unit manpower cost aids the client. The company primarily supports the US operations of Computershare. The company has a dedicated team of ~390 employees in this business segment.

- **Man-hour based payment model**. Global business service clients' pay for services performed by the customer service representatives in accordance with the forecast on all-inclusive, flat monthly fee basis, in accordance with monthly rate as set out in the agreement. Monthly rates are reviewed annually and may be increased based on the productivity gain achieved in the previous year. Agreements are typically valid for five years, subject to automatic renewal, unless terminated by mutual consent of both parties.

Full-time employees in global business services segment have declined over the past two years

Exhibit 40: Full-time employees and transactions handled in the global business services business, March fiscal year-ends, 2019-9MFY23



Source: Company, Kotak Institutional Equities

(6) Pension solutions: high market share accretion in new subscriber additions

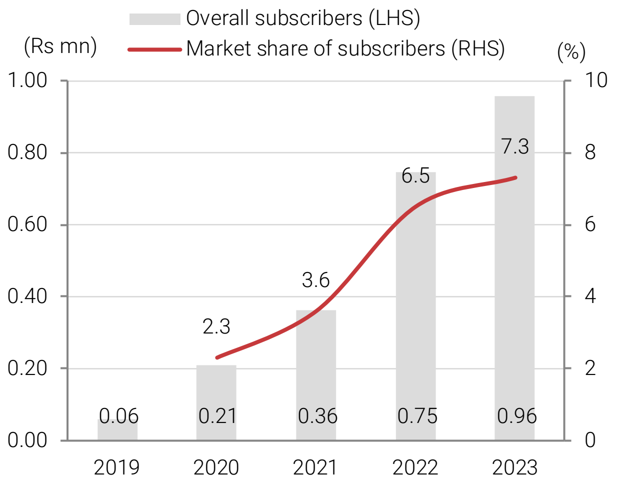
KFin is one of the three (Protean and CAMS are others) registered central record keeping agencies (CRAs) for National Pension Scheme (NPS). It is a regulated business with license from Pension Fund Regulatory and Development Authority of India. It is responsible for recordkeeping, administration and customer service functions for all NPS subscribers including receiving instructions from subscribers through the points of presence, transmitting such instructions to pension funds and effecting switching instructions received from subscribers.

- **Transaction-based revenue model.** The company operates under a transaction-based revenue model, which includes account opening charges, annual maintenance charges and fees based on the number of transactions or subscriptions by the subscriber.

- **Growing subscriber market share.** KFIN's market share in overall pension subscriber base is low at 7% in a three-player market. The incumbent has disproportionate market share in overall folio due to its first-mover advantage. However, incremental market share in new client additions is higher for KFin at 15% in FY2023. (Exhibit 41-42)

Strong expansion in overall clientele

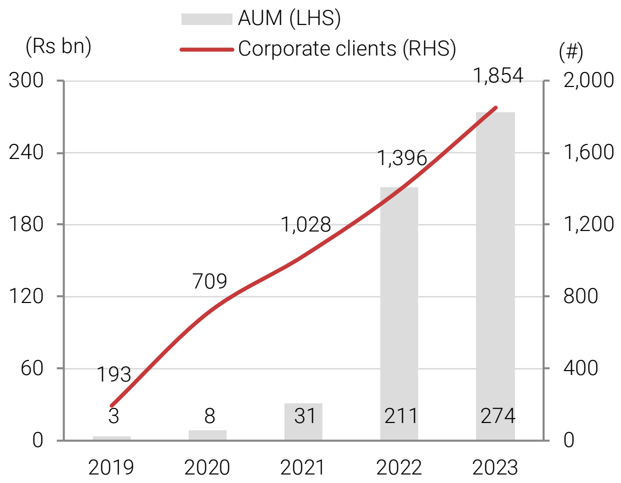
Exhibit 41: Overall subscriber base and corporate clients of the pension segment, March fiscal year-ends, 2019-23



Source: Company, Kotak Institutional Equities

Strong growth in NPS AUM

Exhibit 42: NPS AUM handled, March fiscal year-ends, 2019-9MFY23 (Rs bn)



Source: Company, Kotak Institutional Equities

4

Risks: Yield pressures, execution risks, operational risks, pending litigations

Key risks for KFin include: (1) Faster-than-expected yield compression due to adverse pricing regulations for mutual funds, accentuated by high client concentration, (2) spotless execution is critical to KFin's growth journey as it operates in 6-7 distinct business segments, spanning across client segments, geographies and development journeys, (3) operational lapses (errors, outages, cyber-attacks) can be potentially damaging for business and reputation, and (4) adverse financial outcomes on pending litigations.

Yield compression: Regulations and client concentration

- **Bound by regulations.** RTAs including KFin operate in a highly regulated environment in which it is regulated by the SEBI, RBI, IRDAI and the MCA, among others. As a result, there are inherent legal and regulatory risks in the business. For example, regulators can impose price regulations or implement policies that heighten the competitive intensity in any of the businesses. As the company operates under licenses or registrations obtained from appropriate regulators, it is subject to scrutiny, supervision and actions taken by such regulators.

- **Adverse pricing regulations for MFs.** The mutual fund industry has been in the middle of regulatory changes over the past few years, with expectations of new set of changes on the anvil. The industry has seen yield pressure due to a combination of lower expense ratios as well as elevated distribution commission. This has impacted RTAs as well, as they have seen lower yields despite the rise in share of equity AUM. Over the medium to long term, faster-than-expected shift towards passive funds will also put pressure on MF RTAs.

- **High client concentration.** The domestic MF RTA business has dominant share of revenues (~65-70% of revenues). KFin is dependent on a limited number of clients for a significant portion of its revenues. Exhibit 19 shows that share of top 3 clients has been around 40% over FY2021-1HFY23.

- **Contract are fixed term.** KFIN's contracts with such clients are for a fixed term, unless terminated by either party. For select other clients, the validity for such contracts ranges between 3 and 5 years. The company usually negotiates pricing terms with these clients on periodic and annual basis, and contracts permit them to terminate their arrangements by providing 3-6 months of written notice, after which they may engage the services of its competitors.

- **Financial services markets continue to evolve and are competitive.** Competitors may be able to respond more quickly to new or changing opportunities, technologies, and client requirements and may offer better technological services, more attractive terms to clients and adopt more aggressive pricing policies compared to what KFIN will be able to offer or adopt, this excludes new clients.

- **Client M&A can drive client attrition.** Mergers or consolidations of financial institutions could reduce the number of clients/potential clients. Unverified media articles reported a **potential acquisition of UTI AMC by Tata AMC**. UTI is one of KFin's largest clients (~15% of revenues as per our workings) and could impact its financial performance if the deal happens and UTI AMC's RTA business shifts to CAMS (Tata AMC's RTA partner).

Execution is critical as early gains in utility businesses can prove vital

KFin's new initiatives (geographical expansion, alternatives, account aggregator, etc.) would require considerable time and effort to establish as large revenue drivers. We believe KFin as an organization has the experience and skills that can be applied in complementary domains, which provide business and client diversification. However, execution of business plans remains critical as nature of these business (i.e. financial infrastructure utilities) could mean early gains can prove to be critical in establishing as a large relevant player. KFin has gone through a significant restructuring in 2018, leading to leadership and senior management changes. Mr Sreekanth Nadella took the helm in June 2020 and since then the firm has gone through rebuilding the organization, managing the operational challenges of Covid along with investing in initiatives such as the international foray and capability additions through acquisitions.

Operating risk, including risk of cyber attacks

- **KFin indemnifies MFs of operating risk.** KFin is required to indemnify clients the actual loss incurred by for actions arising out of errors such as (1) wrong processing, (2) missing out processing the application and reporting, (3) misplacing application and (4) serious violations as per guidelines issued by SEBI. Damages are generally subject to an agreed maximum aggregate liability of 12 to 36 months of agreed fees under such agreements. The company incurred claims equivalent to ~1% of revenues in FY2022 and negligible amounts in previous years.

- **Risk of cyber-attacks**. The size and complexity of IT systems may make them potentially vulnerable to breakdowns. Its systems are vulnerable to attacks including viruses, ransomware and spam attacks. KFin has so far not experienced any disruptions to information technology systems. However, data security breaches could lead to the loss of intellectual property or could lead to the public exposure of personal information (including sensitive financial and personal information) of clients' investors. Such security breaches could result in legal actions against the company and potential imposition of penalties. This can have adverse effect on business and reputation.

Pending litigations

There are few pending litigations against the erstwhile entities Karvy Computershare ('KCPL') and Karvy Consultants ('KCL'), which are now transferred to KFin post the amalgamation. It is uncertain if these litigations will settle in KFin's favor and if they will involve any financial liabilities.

- In October 2007, the CBI registered a criminal case alleging fraud committed in the initial public offering of shares of YES Bank. The matter is currently pending.

- In September 2007, the CBI registered a criminal case alleging fraud committed in the initial public offering of shares of Infrastructure Development Finance Company. The matter is currently pending.

- In August 2013, the Directorate of Enforcement, filed a prosecution complaint and a supplementary complaint under PMLA against several entities, including KCL, KCPL and Karvy Stock Broking (KSBL) and their respective employees, alleging money laundering under PMLA. The matter is currently pending.

5

Divergent growth trends across businesses; mid-teen earnings growth overall

We expect KFin's earnings to grow at ~15% CAGR over FY2023-25E, which reflects ~11% revenue growth over this period and 11% operating cost growth. Across segments, we model close to company average growth for MF RTA business (~12% CAGR) with stronger growth from international/AIF business (~20%) being offset by lower growth in issuer solutions (~10%, off a strong recent IPO market) and negligible growth in global business services (US mortgage market exposure). EBIT margins will hover around 35-36% (~40% in FY2022) with the ability to cut costs in an environment where revenue growth becomes more challenging.

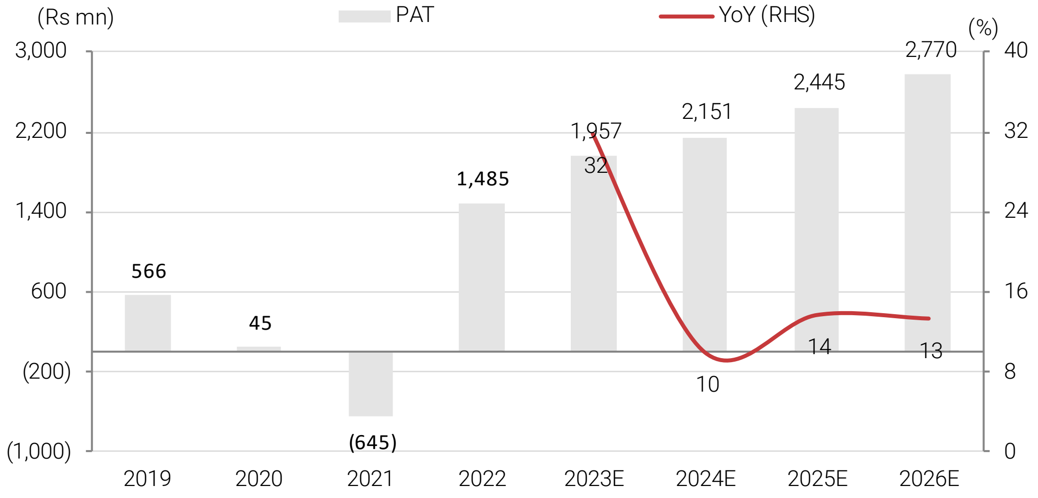
Mid-teens earnings growth

We expect KFin's earnings to grow at 15% CAGR over FY2023-25E, which reflects 12-13% revenue growth and 11% expense growth (see Exhibit 43). For the domestic MF RTA business (~65% of revenues), we assume an operating environment with stable MF AAUM growth (~15% CAGR), no major client-side M&As but a persistent yield pressure. Rest of the businesses will have varying growth trajectory—international/alternatives is witnessing growth tailwinds (client acquisitions) but could be offset by moderate growth in issuer solutions (linked to direct retail investing) and slowdown in global business services (US mortgage market exposure).

- **One-offs dent profitability in FY2020 and FY2021.** KFin's overall profits shrank in FY2020 and reported a loss in FY2021. Sharp decline in profits was led by (1) high goodwill amortization expenses in FY2020 and FY2021 pursuant to the scheme of amalgamation of two erstwhile Karvy entities, i.e. KPCL and the RTA business of KCL into KFIN in November 2018 (full impact of goodwill amortization was from FY2020)—this was discontinued from FY2021, (2) one-offs in tax expenses in FY2020 and FY2021 due to (a) amendment to Section 32 of the Income Tax Act, 1961 resulting in one-off charge of Rs1,119 mn charged to the P&L in FY2021 (goodwill is not allowed as deductible expenditure effective April 1, 2020) and (b) Rs27 mn of MAT credit reversal and Rs43 mn of one-time impact due to change in the income tax regime in FY2020 and (3) full impact of NCD-related interest expense from FY2020—the company repaid its entire borrowings of Rs4 bn (including interest component) by 3QFY22.

Expect earnings to grow at ~12% over the next three years

Exhibit 43: PAT and yoy growth, March fiscal year-ends, 2019-26E



Source: Company, Kotak Institutional Equities estimates

Different revenue model across different business segments

KFin's revenue model differs across business segments, although it is mostly an interplay of (1) growth in AAUM serviced, (2) transactions handled, (3) folios/subscribers managed/on-boarded/serviced, (4) unit-based revenue recognition for select services and (5) man-hour related revenues. (see Exhibit 44)

Revenue model across various business segments

Exhibit 44: Basis of revenue accrual across different product lines

Mutual fund solutions (domestic and international)	Alternatives and wealth management	Pension services	Issuer solutions	Global business services
% of AUM	% of AUM	Fixed account opening charges	Number of folios	Per full time employee
Transaction based	Fixed fee	Annual maintenance charges	Number of corporate actions	
Fixed fee for number of AMC branches serviced		Fee per transaction	Hybrid model for value added products and services	
Fee for information technology products and services such as website, CRM tools				
Fee for white-labelled customer communication				

Source: Company, Kotak Institutional Equities

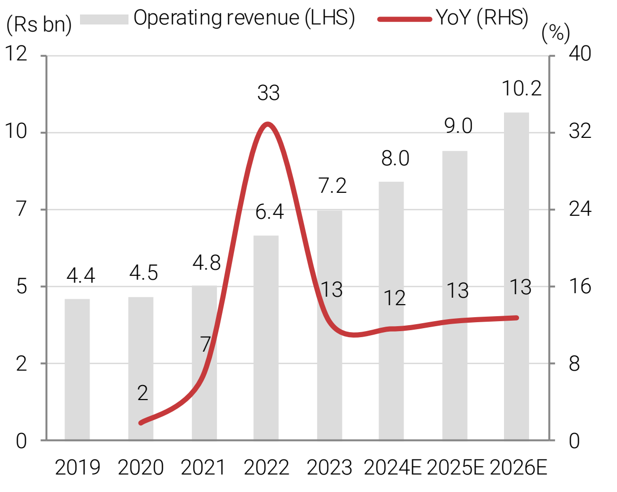
- **Two-speed revenue growth.** KFin is likely to go through a phase where on one hand (1) there is a strong strategic intent to commit resources towards growth areas such as international business as well as acquire capabilities as seen with recent acquisitions (Hexagram, One Money, etc.) and on the other hand, (2) existing businesses such as domestic MF RTA is facing regulatory and competitive uncertainty on revenue yields. Our base case assumption relies on KFin to have sufficient cost flexibility to deliver close to 35% EBIT margins for the business.

- **Around 12% revenue CAGR over FY2024-26E.** Key revenue growth drivers: (1) 13% MF RTA revenue CAGR with ~17% AAUM growth and 5% price declines due to regulatory and client concentration risks, (2) around 25% revenue growth in international/AIF business given organic efforts to acquire clients in a growing market, (3) around 14% revenue growth in issuer solutions driven by growth in listings and relatively better control on pricing, and (4) negligible growth in global business services due to lack of clarity on growth/outsourcing trends in key client markets (mostly US). Apart from macro/capital market risks, lack of payback on investments in non-MF RTA business could impair margins and earnings growth (see Exhibit 45-46)

- **Yield compression to put further pressure on MF RTA business.** Yields charged by MF RTAs are an interplay of (1) fund size (AUM per scheme), (2) product mix (active equity-oriented funds tend to garner highest yields while ETFs have the lowest) and (3) pricing power based on negotiation of fees with different AMCs. We expect calculated yields to decline to 3.4 bps in FY2026E from 4.1 bps in FY2022 (see Exhibit 47-48). Yield compression will be driven by (1) increase in fund size, (2) increase in share of low-yielding ETFs and (3) fee renegotiation by larger AMCs who face revenue headwinds. As such, growth in MF RTA revenues will significantly lag growth in MF AAUM serviced by KFIN. We will watch out for whether value-added services revenues can mitigate some of the yield pressure.

12-13% revenue growth of FY2024-26E

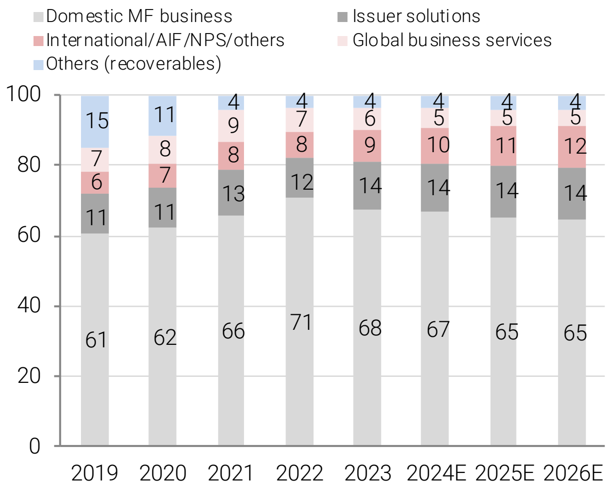
Exhibit 45: Operating revenue growth, March fiscal year-ends, 2019-26E (%)



Source: Company, Kotak Institutional Equities estimates

Revenue share of MF RTA business to remain high

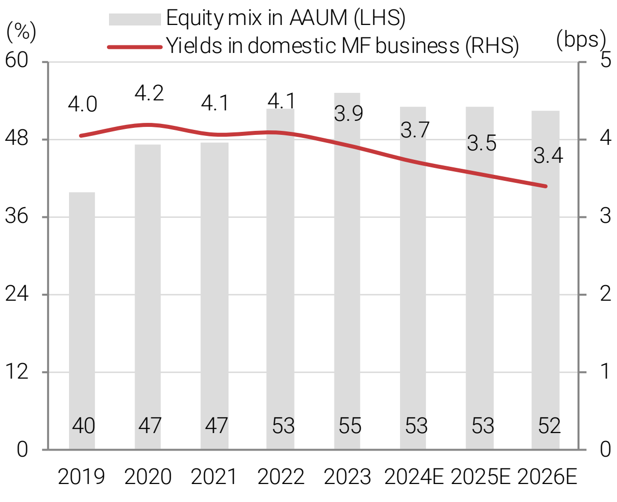
Exhibit 46: Fee-based revenue mix across segments, March fiscal year-ends, 2019-26E (%)



Source: Company, Kotak Institutional Equities estimates

We expect yields to shrink 4-5% every year, partly mix-led

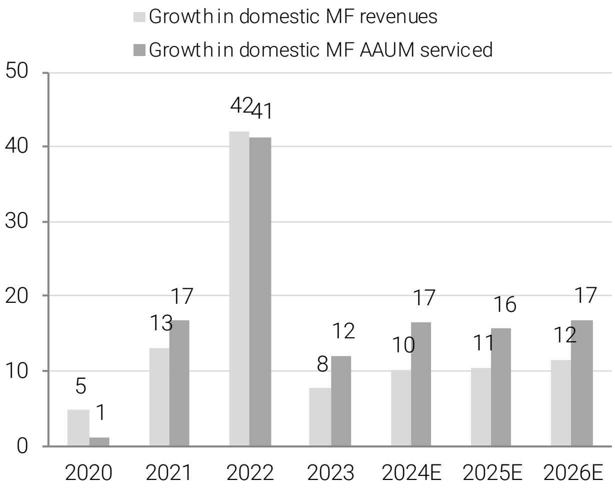
Exhibit 47: Share of equity in MF AAUM and MF RTA yields (bps of AUM), March fiscal year-ends, 2019-26E



Source: Company, Kotak Institutional Equities estimates

MF RTA revenues to clearly lag AUM growth

Exhibit 48: Growth in MF RTA AAUM and revenues yoy, March fiscal year-ends, 2020-26E (%)



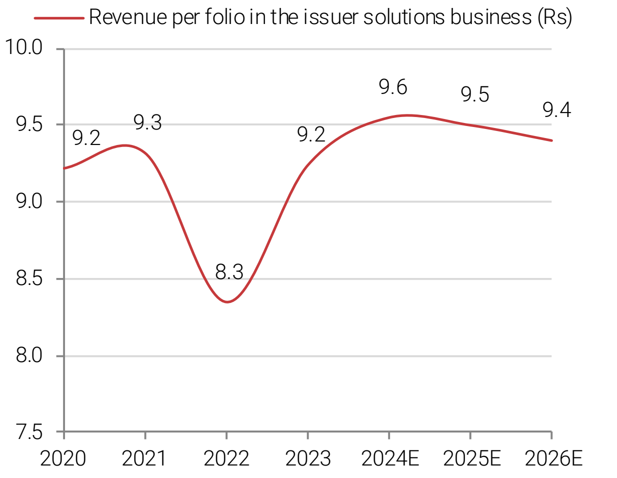
Source: Company, Kotak Institutional Equities estimates

- **Issuer solutions linked to retail participation; likely to see slower growth.** Growth in issuer solutions revenues has been strong at 20% CAGR over FY2019-23, on the back of strong equity markets along with IPO activity, which has spurred retail investor participation. We expect growth to slow down to 13-14%. Growth here is largely driven by number of retail folios but there is potential to add more services being offered to corporate clients (eAGM, eVoting, etc.). We expect some erosion going ahead with greater scale, even as pricing environment is more supportive than for MF RTA (see Exhibit 49-50).

- **Healthy growth in new business segments over FY2019-23 (on a low base).** Revenue growth from new business segments (pension fund services business, investor solutions for alternative and wealth managers, international investor solutions business) was high at 25% CAGR over FY2019-23. These segments contributed ~6% of fee-based revenues in FY2019 and expected to rise to 11-12% over next three years.

Moderation in the average per transaction realization in the issuer solutions business

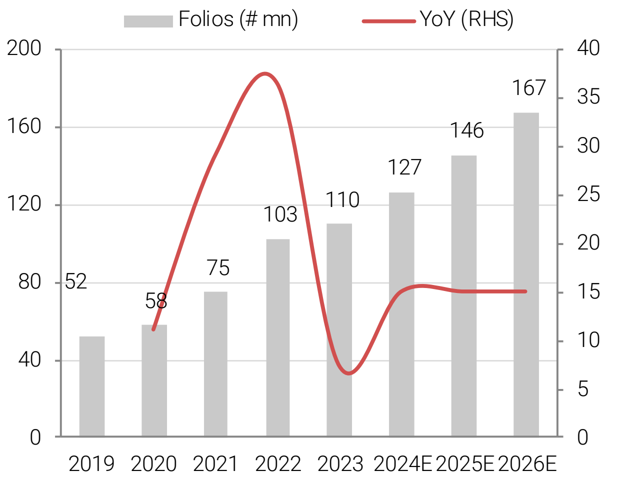
Exhibit 49: Average revenue per folio in the issuer solutions business, March fiscal year-ends, 2020-26E (Rs)



Source: Company, Kotak Institutional Equities estimates

Growth in retail accounts to moderate post sharp growth, driven by markets and IPO activity

Exhibit 50: Growth in folios in issuer solutions business, March fiscal year-ends, 2020-26E (Rs)



Source: Company, Kotak Institutional Equities estimates

Growth investments offset some of the scale benefits

- **Stringent cost control and leverage benefits.** KFin's expense growth is likely to be ~12% CAGR over FY2024-26E. Over the FY2019-23, the business has seen operating leverage play out with expenses growth at ~10% CAGR compared to 13% revenue growth. While growth in expenses will taper down in core MF business driving improvement in cost ratios, investment in technological initiatives and focus on product bouquet diversification will continue to offset scale benefits.

- **EBIT margins to fall from peak level and stabilize at ~36-38% levels.** EBIT margins expanded to ~40% from ~25% over FY2019-22, led by strong tailwinds in the domestic MF AAUM growth. Domestic MF AUM grew by 20% over FY2019-22 with equity AUM growth stronger at ~30%. Margins declined to 36% in FY2023 on account of slower MF AUM growth leading revenue pressure while expense growth remained elevated at ~20% yoy. We expect EBIT margins to stay close to these levels as the company remains in investment mode in high growth verticals of international/alternatives along with potential cash investments/acquisitions to add new verticals.

- **Cost control in the past periods of revenue weakness.** Amid weakness in revenues over FY2019-21, KFin focused on stringent cost control. For example, revenues declined in FY2020/21 by 2%/7% yoy growth, leading to stronger expense control driving 2%/8% yoy decline in operating expenses. This was driven by nearly flat employee expenses and further supported by productivity improvements. A platform-driven approach with constant focus on developing and upgrading digital capabilities drive operational efficiency even as initial up-front expenses remain high. The company continues to emphasize on reducing cost by eliminating manpower needs in day-to-day business operations.

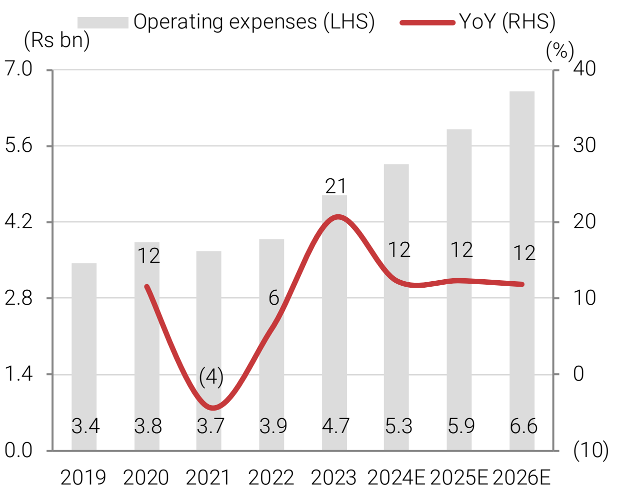
  - KFin reduced cost of processing MF transaction to Rs7.0 in 1HFY23 from Rs9.1 in FY2020 and Rs10.2 in FY2019. Further, the average number of transactions processed per average headcount per month increased to ~6,300 in 1HFY23 from ~3,500 in FY2020 and ~2,800 in FY2019 in the domestic mutual fund solutions.

- **New client additions, inorganic expansion and business diversification drag expenses.** KFin continues to invest in growth in the new business segments. Some of these businesses are nascent, albeit increasing at a swift pace. Revenues tend to be more recurring/annuity across most of these business segments while infrastructure investments, overhead expenses, new client integration expenses, etc. are mostly up-front. As such, healthy growth in new business segments tends to drag expense. Additionally, inorganic expansion and new client additions entail significant pre and post integration cost.

- **Focus on reducing overheads; headroom for improvement is marginal**. We build 12% CAGR in staff costs and ~13% CAGR in other expenses over FY2024-26E compared to 11% and 5% CAGR over FY2019-23 for both expense items, respectively. While the company will continue to focus on reducing overheads and improving productivity, a high fixed cost (apart from employee expenses) model does not leave much headroom for improvement apart from discretionary expenses focused on future growth. (Exhibits 51-54)

12-13% expense growth of FY2024-26E

Exhibit 51: Operating expense (excluding finance cost), March fiscal year-ends, 2019-26E (%)



Source: Company, Kotak Institutional Equities estimates

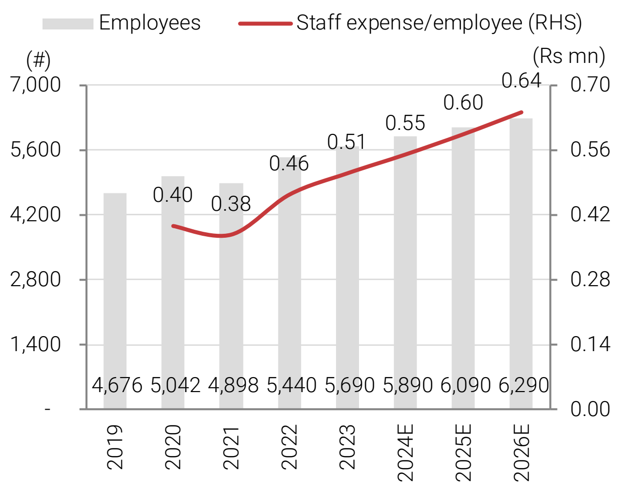
Operating leverage benefits to be invested back

Exhibit 52: Cost-income ratio, March fiscal year-ends, 2019-26E (%)

Source: Company, Kotak Institutional Equities estimates

Modest growth in headcount…

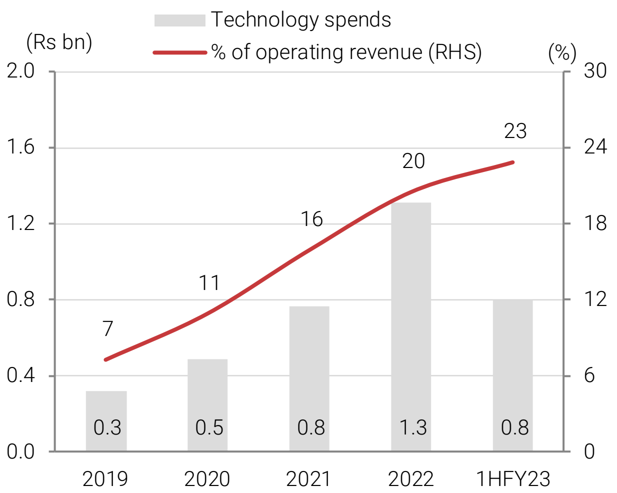
Exhibit 53: Headcount and staff cost per employee, March fiscal year-ends, 2019-26E



Source: Company, Kotak Institutional Equities estimates

…but nature of staff costs is more technology driven

Exhibit 54: Amount of technology spends and share of operating revenues, March fiscal year-ends, 2019-1HFY23



Source: Company, Kotak Institutional Equities estimates

- **High goodwill amortization expense in FY2020 and FY2021.** Post scheme of amalgamation of KPCL and KCL into KFin, Rs6.69 bn was debited to goodwill in FY2019. The company initially followed a policy of amortizing the goodwill over a period of 10 years. This led to high amortization expenses in FY2020 and FY2021 to the tune of Rs669-671 mn over FY2020 and FY2021. From April 1, 2021, the company will periodically test goodwill for impairment rather than periodic amortization (see Exhibit 50).

- Additionally, in FY2021, there was a substantial increase in amortization of intangible assets and right to use assets primarily due to an increase in the intangible assets consisting of customer contracts acquired from Sundaram BNP Paribas Fund Services and right of use assets.

- **Interest expenses high over FY2020-21; all borrowings repaid in FY2022.** Interest expense on debt was high at Rs483-507 mn over FY2020-21 (Rs190 mn in FY2019) owing to interest payment on NCDs. The company repaid its entire borrowings of Rs4 bn (including interest component) by 3QFY22, leading to Rs84.7 mn of foreclosure charges (clubbed with overall finance cost). As such, there is no outstanding debt borrowings on the book as of 3QFY22. In 9MFY22, interest cost of Rs23.8 mn was charged to the P&L, reflecting interest cost on financial liabilities measured at amortized cost on redeemable preference shares.

Healthy free cash flow conversion; remains acquisitive

KFin's business model generates healthy cash flow given the largely upfront nature of investments for building systems that operate utility businesses such as MF RTA or the issuer solutions business. Reported free cash flows to earnings has been volatile in FY2020-21 due to non-recurring items in the P&L but has now close to ~100% levels. We expect this to remain at 90-100% levels.

KFin has been acquisitive in nature, acquiring: (1) Sundaram Fund Services for Rs265 mn in August 2019, (2) Hexagram (fund accounting business) for ~Rs250 mn in February 2022, (3) ~25% initial stake in the account aggregator business, One Money, potentially increasing to ~75% for a total consideration of ~Rs290 mn (subject to regulatory approvals) and (4) 100% of WebileApps (enterprise product development and design company focused on BFSI industry) for Rs110 mn.

KFin has not declared any dividend over the past three fiscals. While we assume 50% payout ratio, KFin clearly remains more focused on pursuing growth opportunities, including through acquisitions. Any commitment to dividend payout is likely to be conservative to start with.

PAT to FCF conversion remains healthy due to strong cash flow generation

Exhibit 55: Free cash flows and PAT, March fiscal year-ends, 2019-26E (Rs mn)

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Free cash flow	561	892	1,653	1,759	1,522	1,668	2,189	2,657
PAT	566	45	(645)	1,485	1,957	2,151	2,445	2,770
FCF/PAT (%)	99	1,971	NM	118	78	78	90	96

Source: Company, Kotak Institutional Equities estimates

Other highlights

- **Goodwill of Rs5.4 bn.** KFIN has goodwill of Rs5.4 bn in its book. The company does not amortize the goodwill although it is tested for impairments on an annual basis.

- **ESOP dilution at ~3.5%.** ESOP's outstanding are at ~3.5% of current outstanding shares.

KFin Technologies - key growth rates and ratios

Exhibit 56: March fiscal year-ends, 2019-2026E

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Key income statement growth rates (%)								
Operational revenue	**NA**	**2**	**7**	**33**	**13**	**12**	**13**	**13**
Domestic mutual funds	NA	5	13	42	8	10	11	12
International/AIF/others	NA	13	22	26	35	24	27	23
Issuer solution	NA	1	22	19	32	15	14	14
Global business service	NA	23	16	1	4	(0)	3	3
Non-fee based revenue	NA	(23)	(59)	10	14	15	15	15
Other income	NA	(43)	(6)	20	189	32	25	21
Total income	**NA**	**1**	**7**	**33**	**14**	**12**	**13**	**13**
Operating expenses	**NA**	**(2)**	**(8)**	**31**	**20**	**12**	**13**	**10**
Employee expenses	NA	3	(3)	23	24	12	14	10
Others	NA	(10)	(18)	49	11	12	11	11
EBITDA	NA	10	34	36	4	12	12	17
PAT	**NA**	**(92)**	**NM**	**NM**	**32**	**12**	**14**	**19**
Core PBT (PBT-other income+goodwill amortization)	**NA**	**(20)**	**61**	**53**	**22**	**11**	**13**	**18**
Key balance sheet growth rates (%)								
Cash and bank balances	NA	(67)	32	93	93	105	18	58
Investment	NA	(88)	601	(2)	146	20	9	9
Fixed assets	NA	(10)	(17)	21	17	10	10	10
Intangibles	NA	239	56	102	32	10	10	10
Net assets	**NA**	**(15)**	**6**	**11**	**22**	**17**	**7**	**12**
Total liabilities	NA	(9)	26	(34)	(0)	3	(30)	5
Shareholders' funds	**NA**	**(21)**	**(15)**	**86**	**35**	**22**	**21**	**14**
Key cash flow statement growth rates (%)								
Reported free cash flow	NA	59	85	6	(13)	11	34	24
Growth in other key items (%)								
Domestic MF AAUM serviced	NA	1	17	41	12	17	16	17
AAUM serviced in international investor solutions business	NA	53	34	3	(14)	30	30	25
AAUM serviced in AIF and wealth management	NA	29	15	41	22	22	25	24
AAUM serviced in pension solutions business	NA	165	271	592	40	25	20	20
Folios serviced in issuer solutions business	NA	11	29	36	7	15	15	15
Transactions handled in global business service	NA	122	80	20	4	5	8	8
Key ratios								
Share of equity AAUM in domestic MF business (%)	40	47	47	53	55	53	53	52
Operational revenue mix from domestic MF (%)	61	62	66	71	68	67	65	65
Yields in domestic MF business (bps of AAUM)	4.0	4.2	4.1	4.1	3.9	3.7	3.5	3.4
Employee expenses/operating revenue (%)	52	44	45	53	60	60	61	61
Cost-to-income (%)	81	96	86	68	65	65	65	63
EBITDA margin (%)	33	35	44	45	41	41	41	43
EBIT margin (%)	24	16	25	39	36	37	36	38
ROE (%)	-	1	(17)	30	26	23	21	22

Source: Company, Kotak Institutional Equities estimates

KFin Technologies - financial summary

Exhibit 57: March fiscal year-ends, 2019-2026E

	2019	2020	2021	2022	2023	2024E	2025E	2026E
Income statement (Rs mn)								
Operational revenue	**4,413**	**4,499**	**4,811**	**6,395**	**7,200**	**8,043**	**9,050**	**10,213**
Domestic mutual funds	2,677	2,804	3,174	4,514	4,862	5,359	5,922	6,608
International/AIF/others	277	314	384	484	653	812	1,035	1,270
Issuer solution	507	510	622	742	983	1,130	1,293	1,471
Global business service	295	362	420	422	438	437	448	460
Non-fee based revenue	657	509	211	233	266	305	351	404
Other income	95	54	51	61	175	230	288	350
Total income	**4,508**	**4,553**	**4,862**	**6,456**	**7,375**	**8,274**	**9,338**	**10,563**
Operating expenses	**2,964**	**2,912**	**2,687**	**3,517**	**4,220**	**4,711**	**5,313**	**5,859**
Employee expenses	1,888	1,940	1,886	2,325	2,894	3,230	3,669	4,030
Other expenses	1,077	973	801	1,192	1,326	1,481	1,644	1,829
EBITDA	**1,448**	**1,586**	**2,124**	**2,879**	**2,980**	**3,333**	**3,737**	**4,354**
Depreciation and amortization expense	475	922	980	370	467	565	621	683
Finance cost	219	533	520	529	106	96	99	102
Profit before tax	**850**	**185**	**675**	**2,040**	**2,582**	**2,902**	**3,305**	**3,920**
Tax	284	140	1,320	555	625	702	800	948
Profit after tax	**566**	**45**	**(645)**	**1,485**	**1,957**	**2,200**	**2,506**	**2,971**
Core PBT (PBT-other income+goodwill amort.)	**1,002**	**802**	**1,294**	**1,979**	**2,407**	**2,672**	**3,017**	**3,569**
Tax rate (%)	33	76	196	27	24	24	24	24
Balance sheet (Rs mn)								
Cash and bank balances	**536**	**178**	**235**	**452**	**870**	**1,784**	**2,102**	**3,328**
Investment	**1,115**	**135**	**949**	**931**	**2,286**	**2,743**	**2,987**	**3,256**
Trade receivables	880	883	1,106	1,126	1,265	1,318	1,489	1,567
Fixed assets	381	345	285	344	403	443	488	536
Intangibles	85	290	453	916	1,205	1,326	1,458	1,604
Goodwill	6,572	5,915	5,246	5,434	5,434	5,834	5,834	5,834
Other assets	647	937	952	1,062	1,049	1,148	1,262	1,388
Net assets	**10,218**	**8,684**	**9,226**	**10,264**	**12,513**	**14,596**	**15,621**	**17,513**
Borrowings	4,060	3,754	3,461	1,225	1,301	1,301	-	-
Trade payables	223	204	253	255	261	275	288	303
Other liabilities	742	630	2,048	2,340	2,249	2,351	2,463	2,587
Total liabilities	5,025	4,588	5,762	3,821	3,811	3,926	2,751	2,889
Share capital	1,658	1,508	1,508	1,676	1,692	1,692	1,692	1,692
Reserves and surplus	3,534	2,587	1,956	4,768	7,010	8,967	11,167	12,921
Shareholders' funds	**5,193**	**4,096**	**3,464**	**6,443**	**8,702**	**10,660**	**12,860**	**14,614**
Net liabilities and shareholders' funds	10,218	8,684	9,226	10,264	12,513	14,586	15,611	17,503
Cash flow statement (Rs mn)								
Cash flow from operating activities	632	1,014	2,046	2,526	2,167	2,583	2,774	3,337
Cash flow from investing activities	(8,644)	930	(1,037)	(1,154)	(2,151)	(1,198)	(750)	(793)
Cash flow from financing activities	7,754	(2,060)	(894)	(1,154)	271	(339)	(1,705)	(1,319)
Net increase/decrease in cash	(258)	(116)	115	219	286	1,047	318	1,225
Free cash flow	**561**	**892**	**1,653**	**1,759**	**1,522**	**1,691**	**2,268**	**2,813**

Source: Company, Kotak Institutional Equities estimates

6

Company background

Overview

The company was originally incorporated under the Companies Act, 2013 as 'KCPL Advisory Services Private Limited' and was granted a certificate of incorporation by the Registrar of Companies, Telangana at Hyderabad on June 8, 2017. The Board approved the change in the name of the company from 'KCPL Advisory Services Private Limited' to 'Karvy Fintech Private Limited' by their resolution on July 22, 2017, which was then approved by the shareholders on July 24, 2017 and a fresh certificate of incorporation was issued by the RoC on August 10, 2017.

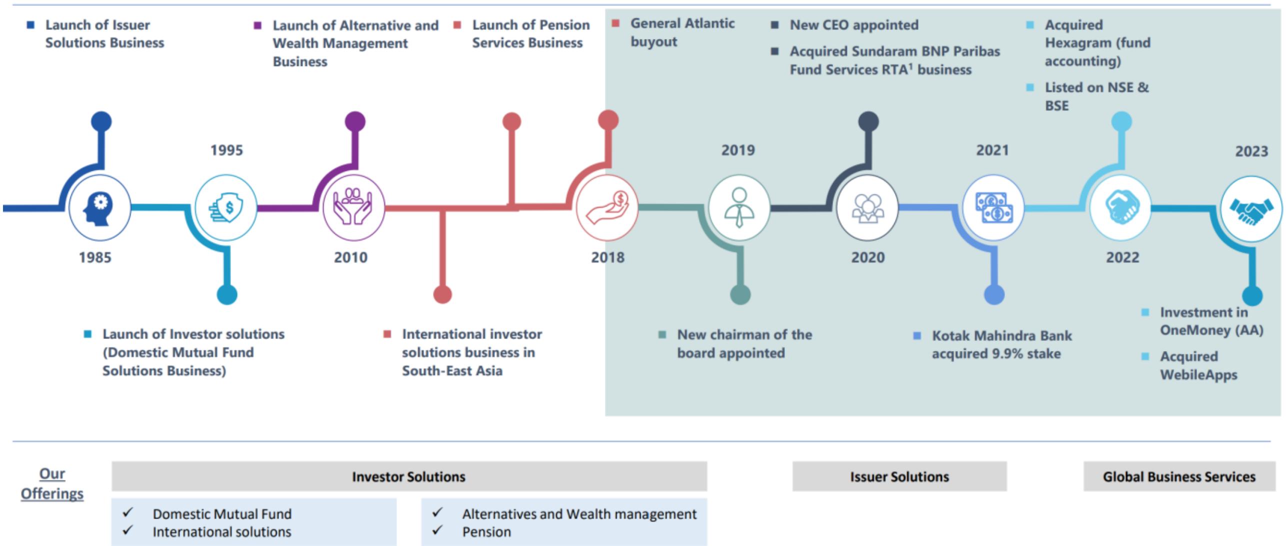
A scheme of amalgamation was filed before the NCLT, Hyderabad between Karvy Consultants Limited (KCL), Karvy Computershare Private Limited (KCPL) and KFin Technologies (formerly known as Karvy Fintech Private Limited) pursuant to Sections 230 to 232, and other applicable provisions, of the Companies Act 2013, for the demerger of all the assets and liabilities pertaining to the RTA business operated by KCPL (including but not limited to the equity investment of KCL in KCPL) into KFin Technologies on a going concern basis and amalgamation of KCPL into KFin Technologies and consequent dissolution of KCPL without winding up.

The Board further approved the change in the name of the company from 'Karvy Fintech Private Limited' to 'KFin Technologies Private Limited' through their resolution on November 25, 2019, which was then approved by the shareholders on November 30, 2019 and a fresh certificated of incorporation was issued by the RoC on December 5, 2019. The Board of the company approved the conversion of the company from a 'private limited company' to a 'public limited company' through a resolution on January 8, 2022, which was thereafter approved by the shareholders of the company through a resolution on January 28, 2022 and a certificated of incorporation was issued by the RoC on February 24, 2022.

KFintech provides investor solutions to (1) domestic asset managers, (2) domestic alternate investment funds (AIFs) and wealth manager/PMS houses, (3) investor solutions to asset managers, AIFs and wealth managers in South-East Asia, Hong Kong, Bahrain and Maldives, (4) investor solutions as a CRA for NPS and (5) issuer solution to domestic corporates. Additionally, the company serves as a global center of excellence for a global mortgage and issuer services provider (global business service segment/GBS).

KFIN – journey and key milestones

Exhibit 58: KFin's journey over the past decades



Source: Company

General Atlantic is the promoter having ~50% stake

Exhibit 59: Shareholding pattern

Shareholder	Stake (%)
General Atlantic (promoter)	49.4
Mutual fund/AIFs	7.0
Axis MF	1.1
AIFs	5.3
IIFL PE Fund	1.4
Kotak Mahindra Bank	9.9
Insurance companies	1.3
FPIs	8.0
Pari Washington India Master Fund	1.1
Goldman Sachs India Equity Portfolio	1.1
Others	19.0
Compar Estates & agencies	10.9
C. Parthasarthy	1.2
Employees	0.5
Individuals	5.4

Source: Company

A1

Appendix 1: Growth prospects of regional asset managers

Two types of international markets: large yet untapped by RTAs or small and underpenetrated

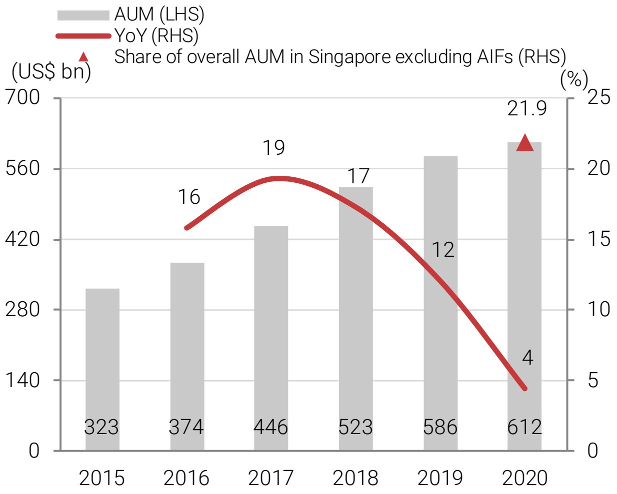
International businesses present significant scope to penetrate existing markets and establish footprint in other South-East Asian markets led by good domain knowledge and lack of pure-play RTAs in these markets.

- **Singapore.** The overall asset management AUM (excluding AIFs) is huge compared to Indian markets at US$2.8 tn. However, only ~22% of the AUM is sourced from domestic clients. Overall AUM (excluding AIFs) was up 14% in CY2020 (domestic AUM was up at 14% CAGR over CY2015-20; lower at 4% yoy in CY2020). ~42% of the overall AUM is invested in equities (flat yoy) as of CY2020. Singapore acts as a global Asia Pacific gateway for serving and intermediating international investors and asset managers. Penetration into the RTA/fund accounting/other surrogate industries in Singapore can drive long-term growth for financial services infrastructure companies.
  - In 2021, the Monetary Authority of Singapore partnered with various industry stakeholder within the funds ecosystem to establish Singapore Funds Industry Group (SFIG), which is aimed at bringing together all key players across the entire asset management value chain (fund managers, lawyers, tax advisors and fund administrators) together to identify industry trends, new market opportunities and recommend developmental initiatives to transform Singapore into an Asset Management Hub. This is expected to further strengthen financial market capabilities.
  - The overall AIF AUM growth in Singapore was healthy at 18% CAGR over CY2015-20 to US$710 bn (~25% of ex-AIF asset management AUM). Going ahead, the AIF market in Singapore will likely maintain swift pace of growth led by regulatory support and growing interest of PE/VC managers and investors.
- **Hong Kong.** The overall asset and wealth management AUM in Hong Kong (including AIFs) increased 21.4% yoy (higher than 15% yoy AUM growth for the domestic asset management industry) in CY2020 to US$4.5 tn. CAGR growth in domestic asset management AUM (~4% of overall AUM including AIFs) was, however, low at 11% over CY2016-20 due to 13% yoy decline in CY2018.
  - The Securities and Futures Commission of Hong Kong (SFC) is promoting cross-border offerings of qualified Hong Kong public funds into overseas markets through mutual recognition arrangements. This led to the implementation of Mainland-Hong Kong Mutual Recognition of Funds (MRF) scheme in 2015. In 2021, the commission entered into a memorandum of understanding, which allows eligible Hong Kong and Thai public funds to be distributed in the other markets. In addition, on-going development of Greater Bay Area to enhance distribution channels, advances in technology and increased client engagement will drive growth in Hong Kong's mutual fund industry.
- **Malaysia.** Malaysian asset management industry reported double-digit AUM CAGR over the past two decades although overall AUM growth was low at 6% CAGR over CY2015-20. The industry is concentrated with top-5 players occupying a high share of the overall market (55.3% as of CY2020).
  - Malaysia's mutual fund industry was primarily driven by an agency model of distribution. Disruptions from digital players and robo-advisory platform have, however, increased and will likely pave the way for the next leg of growth.
- **Other markets.** Other South-East Asian markets, albeit smaller in size (Indonesia, Thailand and Philippines), are poised for healthy growth, led by increase retail participation, easing regulations and diversification of distribution channels.
  - In January 2022, the Stock Exchange of Thailand formulated a three-year strategic plan (2022-24) based on the concept of 'Connecting opportunities X Transforming possibilities', to develop current market and connect to the future world to ensure growth and sustainability aspects. Over the next few years, increasing retail participation, rising investor confidence coupled with increased asset diversity of fund owing to sustainable investing going mainstream in Thailand will likely provide stimulus to the mutual fund industry in the country.

- The Indonesia Stock Exchange (IDX) has launched multiple campaigns over the past few years to raise public awareness on the benefits of long-term investing in capital market products. The government has also lowered the corporate tax for listed companies. Various efforts to expand the distribution of mutual funds are also opened by the authority to allow parties with an extensive customer network to participate as an agent of mutual fund sales force.
- A very low share of retail investor invest in mutual funds or other market-driven investment vehicles in the Philippines. Going ahead, structural reforms and educational initiatives to strengthen financial literacy and deepen capital markets will likely drive a shift towards managed investment schemes.

Growth in domestic AUM in Singapore moderated post FY2017

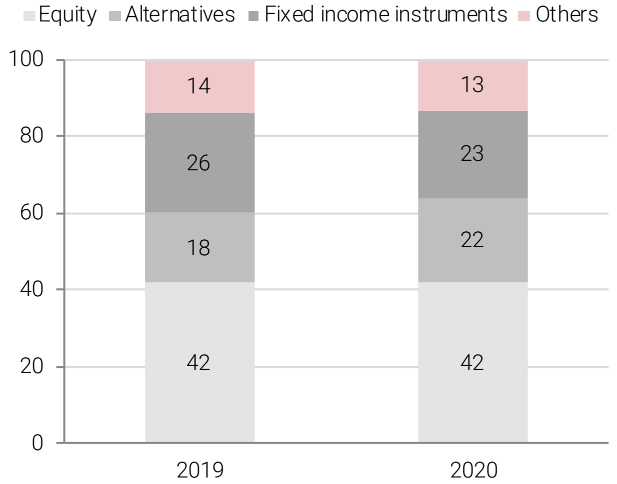
Exhibit 60: Domestic mutual fund AUM in Singapore, calendar year-ends, 2015-20



Source: Monetary Authority of Singapore, CRISIL Research

High share of equity and alternatives in overall AUM mix

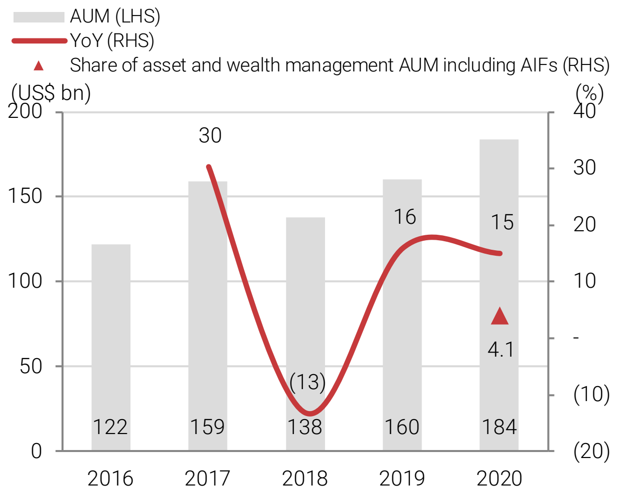
Exhibit 61: Asset mix in Singapore's overall asset management industry AUM, calendar year-ends, 2019-20 (%)



Source: Monetary Authority of Singapore, CRISIL Research

Domestic mutual fund AUM in Hong Kong to overall asset and wealth management AUM (including AIFs) is low at <5% as of CY2020

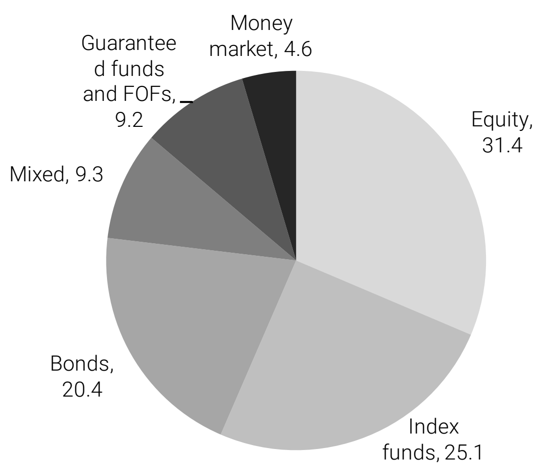
Exhibit 62: Domestic mutual fund AUM in Hong Kong, calendar year-ends, 2016-20



Source: Monetary Authority of Singapore, CRISIL Research

~57% of assets is invested in equities and index funds

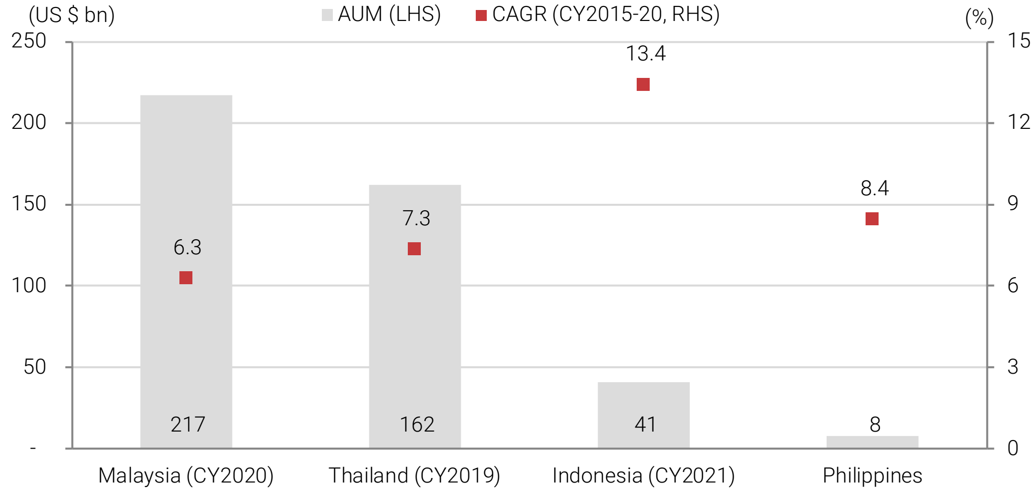
Exhibit 63: Asset mix of Hong Kong domiciled SFC authorized funds, calendar year-end, 2020 (%)



Source: Monetary Authority of Singapore, CRISIL Research

Muted growth in mutual fund AUM across select Asian nations

Exhibit 64: Mutual fund AUM in select nations, calendar year-ends, 2015-21



Notes:
(a) AUM CAGR for Thailand is over CY2015-19 and AUM CAGR for Indonesia is over FY2015-21.

Source: Securities Commission Malaysia, Association of Investment Management Companies (Thailand), Financial Service Authority of Indonesia, IIFA, CRISIL Research

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BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

ADD. We expect this stock to deliver 5-15% returns over the next 12 months.

REDUCE. We expect this stock to deliver -5-+5% returns over the next 12 months.

SELL. We expect this stock to deliver <-5% returns over the next 12 months.

Our Fair Value estimates are also on a 12-month horizon basis.

Our Ratings System does not take into account short-term volatility in stock prices related to movements in the market. Hence, a particular Rating may not strictly be in accordance with the Rating System at all times.

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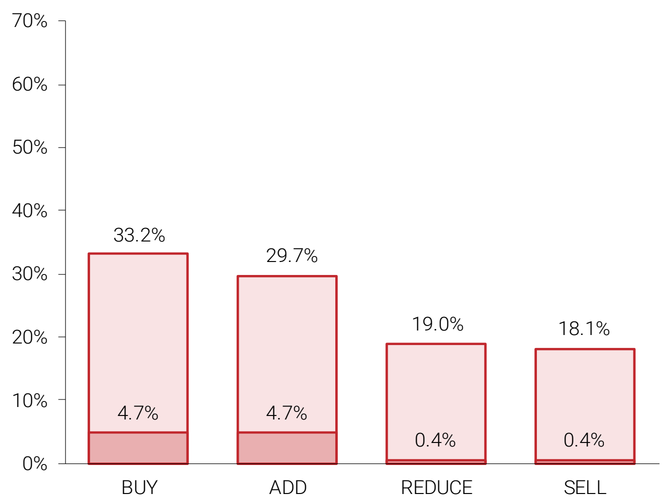

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Source: Kotak Institutional Equities

As of March 31, 2023

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Kfin Technologies (KFINTECH)

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Source: Kotak Institutional Equities Research for ratings and price targets, Bloomberg for daily closing prices.

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Nippon AMC	NAM IN
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Source: Kotak Institutional Equities research

Corporate Office

Kotak Securities Ltd.
27 BKC, Plot No. C-27, "G Block" Bandra Kurla Complex, Bandra (E) Mumbai 400 051, India
Tel: +91-22-43360000

Overseas Affiliates

Kotak Mahindra (UK) Ltd 8th Floor, Portsoken House 155-157 Minories London EC3N 1LS
Tel: +44-20-7977-6900

Kotak Mahindra Inc 369 Lexington Avenue 28th Floor, New York NY 10017, USA
Tel:+1 212 600 8856

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Details of	Contact Person	Address	Contact No.	Email ID
Customer Care/ Complaints	Mr. Ritesh Shah	Kotak Towers, 8th Floor, Building No.21, Infinity Park, Off Western Express Highway, Malad (East), Mumbai, Maharashtra - 400097	18002099393	ks.escalation@kotak.com
Head of Customer Care	Mr. Tabrez Anwar		022-42858208	ks.servicehead@kotak.com
Compliance Officer	Mr Sandeep Gupta		022-42858484	ks.compliance@kotak.com
CEO	Mr. Jaideep Hansraj		022-42858301	ceo.ks@kotak.com

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